

CITY OF ESCANABA, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2005

Prepared by:
Office of the Controller

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ESCANABA	County DELTA
Audit Date 6/30/05	Opinion Date 10/11/05	Date Accountant Report Submitted to State: 12/23/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ANDERSON, TACKMAN & CO., PLC			
Street Address 901 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature		Date 12/23/05	

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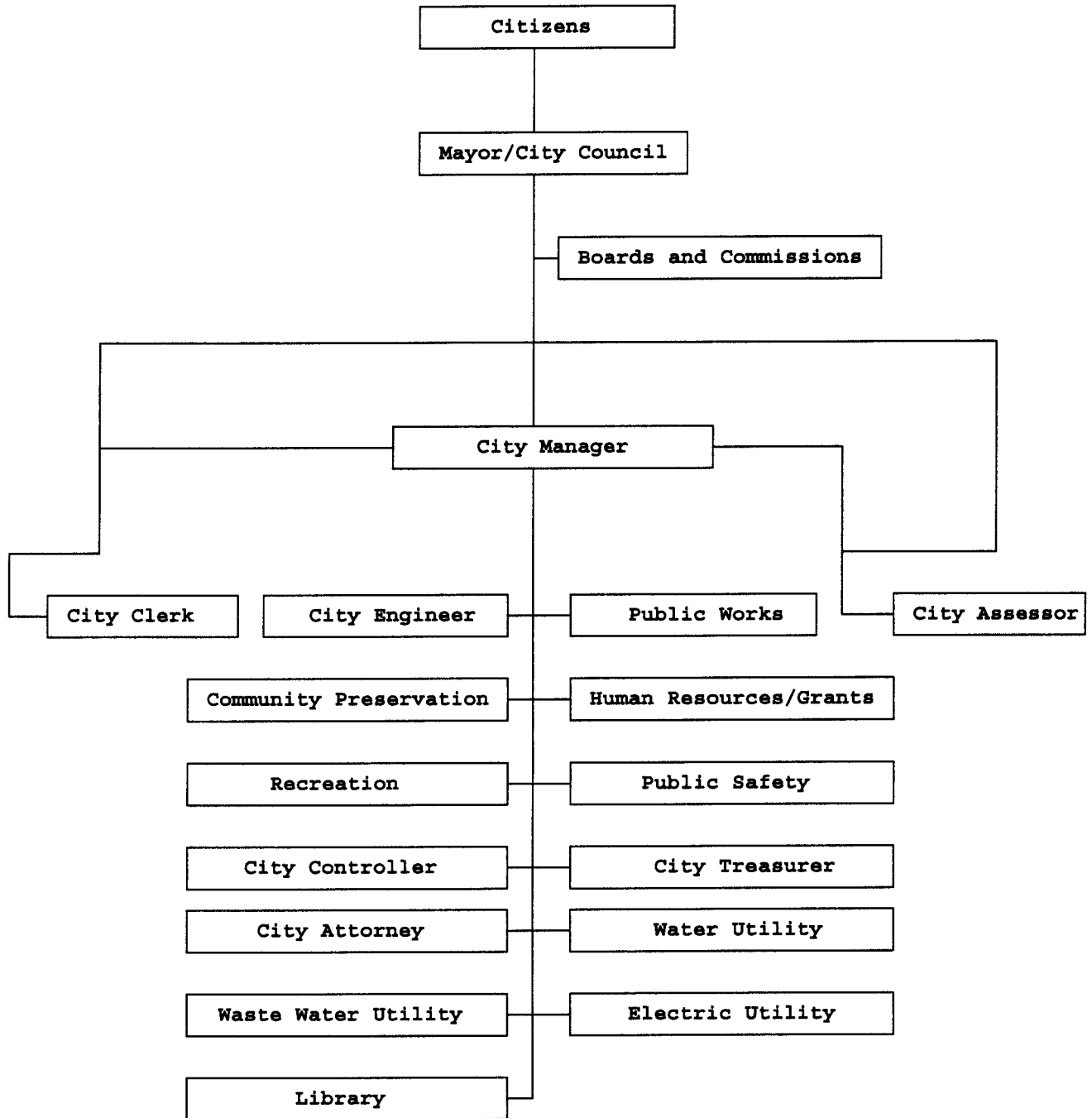
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INTRODUCTORY SECTION

The City of Escanaba, Michigan
Organization Chart



CITY COUNCIL
() Expiration of Term

Mayor
Judith Schwalbach (2007)

Members of the City Council
David J. Moyle - Mayor Pro-Tem (2007)
James J. Berthiaume (2009)
Leo J. Evans (2009)
Wayne E. Heikkila (2009)

ADMINISTRATION

City Manager
Douglas K. Terry

Clerk
Robert S. Richards, CMC

Public Safety Director
Jim Hansen

Assessor
Elizabeth H. Keller

Engineer/
Supt. of Public Works
William S. Farrell

City Treasurer/Human
Resources Director
Robert J. Valentine

Controller
Michael D. Dewar, CPA

Community Preservation
James V. O'Toole

Recreation Director
Thomas J. Penegor

Supt. of Electric Dept.
Robert Headden

Library Directory
Karen M. Peterson

Supt. of Wastewater
and Water Departments
Donald French

Attorney
Ralph B. K. Peterson



December 19, 2005

Honorable Mayor, Members of the City Council and City Manager
City of Escanaba, Michigan

The Comprehensive Annual Financial Report (CAFR) of the City of Escanaba, for the fiscal year ended June 30, 2005, is submitted herewith. This report was prepared by the City Controller's office. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

This document represents the third year of reporting under the Governmental Accounting Standards Board Statement No. 34 (GASB 34) model. While GASB has no direct authority over the City's financial reporting practices, in order for the auditors to provide the City with an unqualified opinion, we are required to comply with the provisions of GASB 34.

GASB 34 impacts the reporting of the City's operations, but does not change the way in which the City's accounting system functions. Simply put, we account for operations as we always have, using the various funds that have been established for years. When reporting on our operations, however, we are required to make adjustments which result in financial statements which are considerably different than in the past. Schedules detailing this adjustment from historical reporting to GASB 34 reporting can be found on pages 18 and 20.

GASB 34 has been referred to as the "most significant change in the history of governmental financial reporting". Some of the highlights of the changes required under GASB 34 include:

Reporting information on a "government-wide" basis rather than on a "funds type" basis, as in the past. Unlike private sector accounting, where financial reporting covers all operations of an entity, governmental accounting has traditionally focused on individual funds. This treatment was based on the fact that there were usually legal requirements which dictated the permissible uses of the various revenue sources; fund accounting allowed for this segregation. Moving to a "government-wide" reporting format is designed to create an overall financial picture, which was often difficult to do under the "funds type" approach.

Changing the manner by which the financial information is aggregated and reported. While GASB 34 still has certain "funds type" reporting requirements, the reporting process now requires a determination of which funds are defined as *major* individual funds. Once this determination is made, reporting requirements differ between major and non-major funds. This change is designed to provide greater focus on the most critical governmental operations.

Changing the determination of operating results for governmental funds from a focus on *spendable resources* (cash in and cash out) to *total resources*. Theoretically, this means that all activities reported in the government-wide financial statements will be reported in a manner similar to private sector accounting. The impact of this change is manifested in a number of areas, including infrastructure reporting and depreciation, debt service reporting and changes in accrual treatments.

The objectives of GASB 34 are varied; proponents believe that the new treatment will help assess the City's *overall* financial condition, identify whether the current year's revenues were sufficient to pay for current year's services and illustrate the extent to which the City invested in capital assets. While no single reporting model will adequately respond to all of the varied objectives that financial reporting hopes to address, it would appear that the new reporting model represents an improvement in some areas and a failure in others.

The single greatest deficiency in historical governmental accounting was its failure to recognize the difference between operating expenses and capital expenditures. Clearly, an entity which is putting a significant amount of its resources into infrastructure should be better positioned for the future than an entity which is spending 100% of its resources on operations. Governmental accounting failed to make this differentiation, while the new model takes a step in this direction. Similarly, by recognizing depreciation on those assets, it illustrates that there are costs in running a city beyond the cash that is being expended.

Additionally, by instituting a full accrual position for expenses, the new model accounts for future obligations which could impact financial health for a number of years. Finally, the model provides information on the total costs to run the City, something that was difficult to create under the former reporting model.

On the negative side, the infrastructure reporting is, by definition, incomplete. The City's information was developed based on records from 1980 forward. Because many of the City's assets have been in place for a significantly longer period, they are ignored by this process. As time goes on, the infrastructure reporting will become more meaningful.

Additionally, the reporting format's emphasis on "government-wide" analysis suffers from the very diverse nature of City operations. For instance, if the City had one extremely "profitable" function, but all other functions were having difficulties, the new reporting model could net out to show that we were in good condition financially. This means little, however, if one of the struggling operations has no avenues available to it to reverse the negative trend.

With the submission of this Comprehensive Annual Financial Report, the City has met the requirements as set forth in GASB 34. While the "government-wide" reporting requirements of GASB 34 provides information that was never available in the past, analysis of this information as it relates to individual funds is nearly impossible. For this reason, we have also provided additional information which GASB 34 does not require, including detailed "funds type" reporting of all of the City's governmental funds. This means that readers can use either or both of the reporting models - traditional and GASB 34 - to obtain the information they require and to best determine the financial results of the City's operations.

The notes which are provided in the financial section are considered essential to fair presentation and adequate disclosure for this financial report. The notes include Note 1 - "Summary of Significant Accounting Policies" for the City, beginning on page 25, and other necessary disclosure of important matters relating to the financial position of the City. The notes are treated as an integral part of the financial statements and should be read in conjunction with them.

Acknowledgments

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Controller's Office. I would like to express my appreciation to the members of the staff who assisted and contributed to its preparation: Debbie Jussila and Melissa Larson.

Respectfully submitted,



Michael Dewar, C.P.A.
City Controller

FINANCIAL SECTION



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the
City Council and City Manager
City of Escanaba, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Escanaba, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Escanaba, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Escanaba, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2005, on our consideration of the City of Escanaba's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

Honorable Mayor, Members of the
City Council and City Manager
City of Escanaba, Michigan

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 12 and 59 through 73, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Escanaba, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andersen, Tackman & Company P.C.

Certified Public Accountants

October 11, 2005

Management Discussion and Analysis

The City of Escanaba's Comprehensive Annual Financial Report (CAFR) consists of a variety of reporting information, some of which is required and some of which is provided as supplementary information. Both types of information are included in an effort to assist a reader in understanding the City's financial position. This section, the Management Discussion and Analysis (MD&A), is a required component of the CAFR and is also provided to assist readers in understanding and interpreting the City's CAFR.

CAFR reporting requirements include two distinct types of governmental financial reporting – “funds-type” financial statements and “government-wide” financial statements. “Funds-type” financial statements mirror the traditional reporting methodology, while “government-wide” financial statements represent financial reporting of all City activities utilizing a common reporting format. While the differences into the two reporting models are numerous, the purpose of the “government-wide” financial statements is to consolidate the City's numerous funds into one total entity and to use accounting treatment similar to that used in the private sector. As such, it treats capital expenditures as investments, rather than expenses, and depreciates those investments over their anticipated lives. More information regarding the reporting differences between the two approaches can be found in Notes 1(b) through 1(g) in the Notes to Financial Statements.

The introduction of “government-wide” reporting is required under Governmental Accounting Standards Board Statement No. 34 (GASB 34). All of the contents of this document through page 75 are required under GASB 34; information following that point is considered supplementary information.

The reporting methodology of the City's CAFR is based upon the concept of a pyramid; the top of the pyramid is represented on pages 15 and 16 – the Statement of Net Assets and the Statement of Activities. These schedules combine all City operations and adjust their reporting format into a common methodology. The base of the pyramid is the individual fund information, which can be found from page 61 (Required Supplemental Information) on. Because an understanding of the reporting hierarchy will assist the reader in understanding the financial results of the City's operations, the following information will review the individual government statements in an order which provides a transition from “funds-type” reporting to “government-wide” reporting.

Governmental Funds Balance Sheet

This document, found on page 17, summarizes the assets and liabilities for all funds which are accounted for under the traditional governmental form of accounting, as of June 30, 2005. Under this format, no recognition is made for infrastructure assets and no distinction is made between operating expenditures and capital expenditures. Each fund carries a fund balance, which represents a total of

available spendable resources for future activities. Detail information in this statement can be traced to the individual funds found later in the CAFR, as those funds are also presented under the traditional governmental accounting format. This statement becomes the basis for transitioning to "government-wide" financial statement presentation.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

This document, which can be found on page 18, illustrates the process of converting the Governmental Funds Balance Sheet to the corresponding amounts used in the "government-wide" Statement of Net Assets (page 15). Essentially, the process recognizes the capital assets, the corresponding depreciation and the long-term borrowing which have been created by governmental funds over the years. To put in another way, rather than treating capital expenditures as another operating expense, it treats these expenditures as an asset which will be utilized into future years.

It can be noted that the total net assets calculated on this schedule - over \$35 million - is the same figure which is used on the Statement of Net Assets previously referenced.

Governmental Funds Revenues, Expenditures and Changes in Fund Balances

This document, found on page 19, summarizes the financial activities for all funds which are accounted for under the traditional governmental form of accounting, for the year ended June 30, 2005. As discussed previously, uses of available resources are treated as expenditures, regardless of the character of the expenditure. Detailed information in this statement can be traced to the individual funds found later in the CAFR, as those funds are also presented under the traditional governmental accounting format.

During the year, the City saw a decrease in the combined fund balances of these funds of \$202,000.

If the loss on sale of investments - which is discussed in Notes to Financial Statements 1(L) - is removed from this calculation, as it neither increases or decreases available spendable resources, the use of fund balance decreases to \$120,000. The original budgets for these funds called for a balanced budget, not including any investment gains or losses. The increased use of fund balance, which was included in a budget amendment, was primarily attributable to a one-time transfer from the Library Fund to the Bezold Trust Fund. Because the Bezold Trust Fund is not included in this schedule, it overstates the use of fund balance by over \$265,000. Absent this treatment, this schedule would show a combined increase in fund balance.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

This document, which can be found on page 20, illustrates the process of converting the traditional statement of revenues, expenditures and increases(decreases) in fund balance (page 19) to the corresponding amounts used in the "government-wide" Statement of Activities (page 16). Essentially,

the process eliminates expenditures, which create capital assets and reduce long-term debt and recognizes depreciation expense and various transactions on a modified accrual basis. With this conversion, the City's traditional fund basis accounting system is transformed into financial statements which would mirror private sector accounting treatment.

The remaining documents which are required under GASB 34 (pages 21-24) represent our enterprise and internal service funds. Because these funds have always been accounted for in a manner which mirror private sector accounting, there is no need to "convert" this information, as was required with the governmental funds, prior to their inclusion in the "government-wide" financial statements reflected on page 15. Detailed information in these remaining statements can be traced to the individual funds found later in the CAFR.

Statement of Net Assets

As discussed previously, this document (page 15) summarizes the financial position of all City operations, modified as required, in a private sector format, as of June 30, 2005. Below is a summarized comparison of this year's statement to last year's:

Assets	<u>Y/E 6/30/2005</u>	<u>Y/E 6/30/2004</u>	<u>Yr. to Yr. Change</u>
Current Assets			
Cash/Investments	\$37,728,849	\$39,872,613	(\$2,143,764)
Receivables	5,745,354	5,613,496	131,858
Other Assets	2,461,518	1,090,535	1,370,983
Noncurrent Assets			
Restricted Assets	345,328	328,372	16,956
Capital Assets	92,413,696	89,920,336	2,493,360
Accumulated Depreciation	<u>(41,480,441)</u>	<u>(39,138,456)</u>	<u>(2,341,985)</u>
TOTAL ASSETS	<u>\$97,214,304</u>	<u>\$97,686,896</u>	<u>(\$472,592)</u>
Liabilities			
Current Liabilities	\$5,009,652	\$3,062,647	\$1,947,005
Noncurrent Liabilities	<u>8,282,192</u>	<u>9,061,595</u>	<u>(779,403)</u>
TOTAL LIABILITIES	<u>\$13,291,844</u>	<u>\$12,124,242</u>	<u>\$1,167,602</u>
NET ASSETS	<u>\$83,922,460</u>	<u>\$85,562,654</u>	<u>(\$1,640,194)</u>

As noted, cash and investments decreased by nearly \$2,144,000 when compared to the prior year, with an decrease of over \$432,000 in the governmental activities and a decrease of over \$1,711,000 in the business-type activities. The increase in other assets is based primarily on higher coal inventories in the Electric Fund.

Capital assets increased by nearly \$2.5 million, with governmental activities accounting for nearly \$825,000 of this increase. After netting out depreciation expenses, net capital assets showed a small

overall increase.

Current liabilities showed a large increase, reflecting year-end coal shipments and the settlement of the dispute on the combustion turbine generator at the electric plant shortly after the close of the fiscal year.

The net effect of these various changes is that the City showed an overall decrease in net assets of over \$1,640,000. Overall, governmental activities decreased by over \$150,000, while business-type activities showed a decrease of nearly \$1.5 million. The large decrease in business-type net assets is attributable to the operating losses experienced in the three major utilities, including a nearly \$1.3 million loss in the Electric Utility Fund.

It should be noted that this statement includes, for the first time, the Escanaba Housing Commission (Harbor Towers) as a component unit; this is required under accounting convention. Other than the ability to appoint board members, however, the City exercises no control over the day to day operations of this entity, nor do we have any financial commitment.

Statement of Activities

As discussed previously, this document (page 16) summarizes the revenues and expenses for all City operations, modified as required in a private sector format, for the year ended June 30, 2005. As discussed in the Statement of Net Assets, the results of this document show a decrease in net City assets of over \$1.64 million.

This document segments revenues into various categories and further distinguishes between direct revenues (attributable to specific functions) and general revenues, such as taxes and State shared revenues. The result, reflected in the Total column, represents the net cost of the various activities.

Total governmental activities expenses, modified under the private sector reporting format, were \$9.62 million for the year, a decrease of \$155,000 (1.6%) from the prior year. This reflected, in part, management's directives to reduce overall expenditures. Total expenses for business-type activities increased by over \$3.6 million; the majority of the increase occurred in the Electric Fund. Much of this increase was offset by sales of CT energy to outside sources; the net increase in costs, after offsetting the increased revenues, was only \$1.5 million, which was attributable to higher fuel and overhead costs.

Total *net* governmental activities expense, which represents the cost of activities after deducting revenues directly attributable to those activities, were over \$6.7 million. This was an increase of almost \$1.4 million from the prior year's figure. This figure is skewed due to the fact that in the prior fiscal year, the City received nearly \$1.6 million in recreation grants which acted to increase net assets and decrease net governmental activities expenses.

General revenues, those which are not tied to a specific program or activity, saw several significant

changes in the year ended 6/30/05. State shared revenues once again decreased, reflecting the difficulties that the State has faced over the last several years. The net year to year decrease was \$70,000, but when combined with the fact that the City would historically receive an increase, it means the overall budgetary impact was much greater. Investment earnings increased by nearly \$695,000, more a reflection of the reduced unrealized loss on investments than a reflection of higher interest earnings. Miscellaneous income decreased over the prior year by over \$110,000; one significant component of this decrease was a contribution to the City's Library Fund by the Margaret Bezold Estate in the prior fiscal year.

Overall, general revenues increased by \$343,000 from the prior year. Revenues attributable to governmental activities decreased over the prior year by \$141,000, while business-type revenues increased by \$484,000.

Long-Term Debt

Following a year which saw a bond refunding and Water Utility borrowings, there were no significant debt events in fiscal year 2004-2005.

Subsequent Events

There were no material events which occurred between the end of fiscal year 6/30/05 and the date of this report. In general, the City continues to feel the impact of the overall economic slowdown which is affecting both the State and the nation as a whole. As discussed previously, fiscal year 2004-2005 saw the implementation of an early retirement program. While the impact was negative for 2004-2005, it will have a large beneficial impact spread over future years. This environment contributed to further cost modifications for the 2005-06 budget, with the impact expected to be felt for the foreseeable future. The City continues to review all aspects of its operations on an ongoing basis, but to date, all funds continue to operate above the levels required by State law.

Additional Information

The City's CAFR is designed to provide both an overall and detailed analysis of the City's operations. Any questions regarding this information or requests for additional information can be directed to my attention at City Controller, 410 Ludington Street, P.O. Box 948, Escanaba, MI 49829 or by calling (906) 789-7300.

Respectfully submitted,



Michael Dewar, C.P.A.
City Controller

CITY OF ESCANABA, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Escanaba Housing Commission
ASSETS:				
Current assets:				
Cash and equivalents	\$ 144,756	\$ 1,347,918	\$ 1,492,674	\$ 53,724
Investments, at market	12,864,130	23,372,045	36,236,175	379,514
Receivables:				
Accounts	211,131	2,214,536	2,425,667	839
Mortgages, land contracts and other notes	1,988,706	-	1,988,706	-
Contracts for rental property	1,599	-	1,599	-
Special assessments	56,795	-	56,795	-
Accrued interest	143,250	249,128	392,378	-
Due from other governments:				
State of Michigan	538,865	-	538,865	-
Local units	344	-	344	-
Advances to other funds	341,000	-	341,000	-
Real estate held for resale	8,200	-	8,200	-
Chemical inventory	-	13,297	13,297	-
Inventory	388,917	1,702,998	2,091,915	2,589
Prepaid expenses	190,622	157,484	348,106	20,006
Total current assets	16,878,315	29,057,406	45,935,721	456,672
Noncurrent assets:				
Restricted assets:				
Investments, at market	-	345,328	345,328	-
Capital assets	36,902,076	55,511,620	92,413,696	6,511,766
Accumulated depreciation	(12,350,375)	(29,130,066)	(41,480,441)	(4,087,185)
Net noncurrent assets	24,551,701	26,726,882	51,278,583	2,424,581
TOTAL ASSETS	\$ 41,430,016	\$ 55,784,288	\$ 97,214,304	\$ 2,881,253
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 192,473	\$ 2,611,384	\$ 2,803,857	\$ 21,200
Accrued liabilities	-	-	-	74,322
Accrued interest	49,891	24,113	74,004	-
Claims payable	354,662	-	354,662	-
Accrued salaries and fringes	276,868	247,678	524,546	-
Customer deposits	-	168,574	168,574	-
Due to other funds	-	-	-	-
Due to other governments	5,756	-	5,756	-
Advances from other funds	-	341,000	341,000	-
Deferred revenue	24,875	-	24,875	-
Compensated absences, current portion	261,628	-	261,628	-
Notes payable, current portion	23,750	-	23,750	-
Bonds payable, current portion	202,000	225,000	427,000	-
Total current liabilities	1,391,903	3,617,749	5,009,652	95,522
Noncurrent liabilities:				
Noncurrent liabilities	-	-	-	15,071
Compensated absences	315,189	-	315,189	-
Note payable	190,003	-	190,003	-
Bonds payable	3,932,000	3,845,000	7,777,000	-
Total noncurrent liabilities	4,437,192	3,845,000	8,282,192	15,071
TOTAL LIABILITIES	\$ 5,829,095	\$ 7,462,749	\$ 13,291,844	\$ 110,593
NET ASSETS:				
Invested in capital assets, net of related debt	\$ 20,841,701	\$ 21,946,442	\$ 42,788,143	\$ 2,424,581
Restricted for:				
Capital projects	1,174,288	-	1,174,288	-
Debt service	-	345,328	345,328	-
Other purposes	1,986,416	-	1,986,416	-
Unrestricted	11,598,516	26,029,769	37,628,285	346,079
TOTAL NET ASSETS	\$ 35,600,921	\$ 48,321,539	\$ 83,922,460	\$ 2,770,660

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Functions/Programs:	Net (Expense) Revenue and Changes in Net Assets							
	Expenses	Program Revenues			Primary Government			Component Unit
		Fees, Fines & charges for services	Operating grants and contri- butions	Capital grants and contri- butions	Govern- mental activities	Business- type activities	Total	Escanaba Housing Commission
Primary Government:								
Governmental activities:								
General government	\$ 1,222,336	\$ 96,010	\$ -	\$ -	\$(1,126,326)	\$ -	\$(1,126,326)	\$ -
Public safety	3,849,289	452,641	222,901	204,567	(2,969,180)	-	(2,969,180)	-
Highways, streets and public works	1,865,266	102,351	1,097,589	113,800	(551,526)	-	(551,526)	-
Sanitation	825,609	201,566	-	-	(624,043)	-	(624,043)	-
Community services	331,322	-	-	-	(331,322)	-	(331,322)	-
Recreation	578,506	60,946	-	84,586	(432,974)	-	(432,974)	-
Cultural	515,475	22,872	246,935	1,709	(243,959)	-	(243,959)	-
Urban redevelopment and housing	169,156	6,161	-	-	(162,995)	-	(162,995)	-
Economic development	94,587	-	-	-	(94,587)	-	(94,587)	-
Capital projects	5,732	-	-	-	(5,732)	-	(5,732)	-
Other functions	10,951	-	-	-	(10,951)	-	(10,951)	-
Interest on long-term debt	153,027	-	-	-	(153,027)	-	(153,027)	-
Total governmental activities	9,621,256	942,547	1,567,425	404,662	(6,706,622)	-	(6,706,622)	-
Business-type activities:								
Electric utility	14,431,183	12,887,570	-	20,254	-	(1,523,359)	(1,523,359)	-
Water utility	1,447,247	1,318,648	-	20,324	-	(108,275)	(108,275)	-
Waste water utility	1,166,967	1,007,101	-	-	-	(159,866)	(159,866)	-
Marina activity	277,605	207,612	-	-	-	(69,993)	(69,993)	-
Total business-type activities	17,323,002	15,420,931	-	40,578	-	(1,861,493)	(1,861,493)	-
Total primary government	\$26,944,258	\$16,363,478	\$ 1,567,425	\$ 445,240	(6,706,622)	(1,861,493)	(8,568,115)	-
Component Unit: Escanaba Housing Commission	\$ 894,016	\$ 430,643	\$ 164,900	\$ -	-	-	-	(298,473)
General revenues:								
Property taxes					4,061,249	-	4,061,249	-
State revenue sharing					1,537,988	-	1,537,988	-
Unrestricted grants and contributions					19,383	250	19,633	-
Unrestricted gain on sale of assets					1,139	-	1,139	-
Unrestricted investment earnings (losses)					73,693	879,601	953,294	17,614
Miscellaneous					605,243	15,000	620,243	31,615
Transfers					256,722	(522,347)	(265,625)	-
Total general revenues and transfers					6,555,417	372,504	6,927,921	49,229
Changes in net assets					(151,205)	(1,488,989)	(1,640,194)	(249,244)
Net assets, beginning of year					35,752,126	49,810,528	85,562,654	3,019,904
Net assets, end of year					\$35,600,921	\$48,321,539	\$83,922,460	\$ 2,770,660

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS:					
Cash and equivalents	\$ 5,063	\$ -	\$ -	\$ 108,318	\$ 113,381
Investments, at market	3,474,263	466,136	291,610	5,515,520	9,747,529
Receivables:					
Accounts, net of bad debt allowance	188,901	-	-	22,230	211,131
Mortgages, land contracts and other notes	-	-	-	1,988,706	1,988,706
Contracts for rental property	1,599	-	-	-	1,599
Special assessments	43,232	-	13,563	-	56,795
Accrued interest	44,225	5,053	2,593	60,523	112,394
Due from other funds:					
Grants Fund	59,993	-	-	-	59,993
Sanitary Landfill Fund	8,402	-	-	-	8,402
Due from other governments:					
State of Michigan	236,655	161,716	42,564	97,930	538,865
Local units	-	-	-	344	344
Advances to other funds	-	-	-	341,000	341,000
Real estate held for resale	-	-	-	8,200	8,200
Inventory	388,917	-	-	-	388,917
Prepaid expenses	1,603	-	-	-	1,603
TOTAL ASSETS	\$ 4,452,853	\$ 632,905	\$ 350,330	\$ 8,142,771	\$ 13,578,859
LIABILITIES:					
Accounts payable	\$ 94,119	\$ 5,050	\$ 2,515	\$ 9,568	\$ 111,252
Accrued salaries and fringes	244,942	-	-	-	244,942
Due to other funds	-	-	-	68,428	68,428
Due to other governments	5,756	-	-	-	5,756
Deferred revenue	53,612	-	13,563	37,002	104,177
TOTAL LIABILITIES	398,429	5,050	16,078	114,998	534,555
FUND BALANCES:					
Reserved for:					
Inventory	388,917	-	-	-	388,917
Prepaid expenditures	1,603	-	-	-	1,603
Principal	-	-	-	989,349	989,349
Capital improvements	-	-	-	184,939	184,939
Long-term notes receivable	-	-	-	1,976,580	1,976,580
Revolving loans	-	-	-	1,357,749	1,357,749
UPSET expenses	-	-	-	106,218	106,218
Land held for resale	-	-	-	8,200	8,200
Future DDA projects	-	-	-	522,449	522,449
Unreserved, reported in:					
General Fund	3,663,904	-	-	-	3,663,904
Special revenue funds	-	627,855	334,252	2,882,289	3,844,396
TOTAL FUND BALANCES	4,054,424	627,855	334,252	8,027,773	13,044,304
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,452,853	\$ 632,905	\$ 350,330	\$ 8,142,771	\$ 13,578,859

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balances for governmental funds \$ 13,044,304

Total net assets reported for governmental activities in the Statement of Net Assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 507,937	
Land improvements	4,969,804	
Buildings and improvements	2,706,789	
Parking lots	356,131	
Industrial land and buildings	16,913	
Vehicles and equipment	1,792,631	
Infrastructure	14,235,305	
Less:		
Accumulated depreciation	<u>(7,024,114)</u>	17,561,396

Internal service funds are used by the City to charge various costs to individual funds or departments of the City which are not accounted for as enterprise activities. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.

6,132,652

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the Statement of Net Assets.

Accrued interest on long-term debt	\$ (2,163)	
Bonds payable	(424,000)	
Note payable	(213,753)	
Compensated absences and FICA	<u>(576,817)</u>	(1,216,733)

Deferred revenue reported as a liability on the balance sheet of the fund financial statements has been recognized as a revenue in the Statement of Activities and has been removed from the Statement of Net Assets.

79,302

Total net assets of governmental activities

\$35,600,921

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the year ended June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 3,862,055	\$ -	\$ -	\$ 245,610	\$ 4,107,665
Licenses and permits	1,306	-	-	-	1,306
Local sources	10,000	-	-	411,099	421,099
State grants	1,602,626	948,088	263,102	83,992	2,897,808
Federal sources	158,914	-	-	332	159,246
Charges for services	603,810	-	-	194,232	798,042
Fines and forfeitures	24,339	-	-	43,473	67,812
Interest and dividends	-	-	-	51,265	51,265
Miscellaneous	261,059	20,042	23,829	427,005	731,935
TOTAL REVENUES	6,524,109	968,130	286,931	1,457,008	9,236,178
EXPENDITURES:					
General government	1,286,835	-	-	-	1,286,835
Public safety	3,916,237	-	-	15,270	3,931,507
Highways, streets and public works	475,936	864,437	429,567	71,369	1,841,309
Sanitation	825,609	-	-	-	825,609
Community services	24,148	-	-	306,851	330,999
Recreation	528,150	-	-	-	528,150
Cultural	258	-	-	515,304	515,562
Urban redevelopment and housing	-	-	-	169,156	169,156
Economic development	-	-	-	87,318	87,318
Capital projects	-	-	-	5,732	5,732
Other functions	10,951	-	-	-	10,951
Debt service	-	-	-	79,546	79,546
TOTAL EXPENDITURES	7,068,124	864,437	429,567	1,250,546	9,612,674
EXCESS REVENUES (EXPENDITURES)	(544,015)	103,693	(142,636)	206,462	(376,496)
OTHER FINANCING SOURCES (USES):					
Gain (loss) on sale of investments	(32,217)	(3,819)	(1,721)	(44,207)	(81,964)
Operating transfers in	762,453	54,721	173,445	270,873	1,261,492
Operating transfers out	(304,305)	(100,000)	-	(600,465)	(1,004,770)
TOTAL OTHER FINANCING SOURCES (USES)	425,931	(49,098)	171,724	(373,799)	174,758
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER FINANCING USES)	(118,084)	54,595	29,088	(167,337)	(201,738)
Fund balances, beginning of year	4,172,508	573,260	305,164	8,195,110	13,246,042
FUND BALANCES, END OF YEAR	\$ 4,054,424	\$ 627,855	\$ 334,252	\$ 8,027,773	\$ 13,044,304

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Net changes in fund balances - total governmental funds \$ (201,738)

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets
is capitalized and is allocated over their estimated useful lives
and reported as depreciation expense. This is the amount by which
capital outlay (\$1,099,745) exceeded depreciation expense (\$859,373)
and the removal of fixed assets (\$28,122).

212,250

Internal service funds are used by the City to charge various costs
to individual funds or departments of the City which are not accounted
for as an enterprise activity. This is the net revenue (expense) of
the internal service funds that are reported with the governmental
activities.

(258,341)

Repayment of debt principal is an expenditure in the governmental funds
but reduces the debt liability in the Statement of Net Assets.

Principal repayments:

DDA

52,000

CDBG Program

23,750

This amount reflects the deferred revenue reported in the fund financial
statements that is recognized as revenue in the Statement of Activities.

(46,416)

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are normally
paid with expendable available financial resources. In the Statement of
Activities, however, which is presented on the accrual basis of accounting,
expenses and liabilities are reported regardless of when financial resources
are available. In addition, interest on long-term debt is not recognized
under the modified accrual basis of accounting until due, rather than when
it accrues. This adjustment combines the following net changes:

Compensated absences and FICA

67,025

Accrued interest on debt

265

Changes in net assets of governmental activities

\$ (151,205)

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2005

	Electric Utility Fund	Water Utility Fund	Waste Water Utility Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
ASSETS:						
Current assets:						
Cash and equivalents	\$ 1,326,845	\$ -	\$ -	\$ 21,073	\$ 1,347,918	\$ -
Investments, at market	20,737,892	443,680	2,122,691	67,782	23,372,045	3,116,601
Receivables:						
Accounts	1,874,617	197,238	136,026	6,655	2,214,536	-
Accrued interest	219,672	5,615	22,918	923	249,128	30,856
Chemical inventory	-	6,538	6,759	-	13,297	-
Inventories, net of obsolescence allowance	1,688,907	-	-	14,091	1,702,998	-
Due from other funds	-	-	-	-	-	33
Prepaid expenses	157,484	-	-	-	157,484	189,019
Cash on deposit	-	-	-	-	-	31,375
Total current assets	<u>26,005,417</u>	<u>653,071</u>	<u>2,288,394</u>	<u>110,524</u>	<u>29,057,406</u>	<u>3,367,884</u>
Advance to Marina Fund	<u>24,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,112</u>	<u>-</u>
Restricted assets:						
Operation and maintenance account:						
Investments, at market	-	114,819	94,659	-	209,478	-
Replacement account:						
Investments, at market	-	-	50,000	-	50,000	-
Bond reserve account:						
Investments, at market	-	-	85,850	-	85,850	-
Total restricted assets	<u>-</u>	<u>114,819</u>	<u>230,509</u>	<u>-</u>	<u>345,328</u>	<u>-</u>
Property, plant and equipment	27,950,958	13,360,631	11,582,659	2,617,372	55,511,620	12,316,566
Less accumulated depreciation	<u>(19,137,997)</u>	<u>(4,648,247)</u>	<u>(4,646,024)</u>	<u>(697,798)</u>	<u>(29,130,066)</u>	<u>(5,326,261)</u>
Net property, plant and equipment	<u>8,812,961</u>	<u>8,712,384</u>	<u>6,936,635</u>	<u>1,919,574</u>	<u>26,381,554</u>	<u>6,990,305</u>
TOTAL ASSETS	<u>\$34,842,490</u>	<u>\$ 9,480,274</u>	<u>\$ 9,455,538</u>	<u>\$ 2,030,098</u>	<u>\$55,808,400</u>	<u>\$10,358,189</u>
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ 2,581,242	\$ 23,397	\$ 2,942	\$ 3,803	\$ 2,611,384	\$ 81,221
Customer deposits	168,574	-	-	-	168,574	-
Claims payable	-	-	-	-	-	354,662
Accrued salaries and fringes	96,633	79,686	71,359	-	247,678	31,926
Accrued interest payable	-	16,500	7,613	-	24,113	47,728
Current portion of long-term debt	-	110,000	115,000	-	225,000	150,000
Total current liabilities	<u>2,846,449</u>	<u>229,583</u>	<u>196,914</u>	<u>3,803</u>	<u>3,276,749</u>	<u>665,537</u>
Long-term liabilities:						
Bonds payable	-	2,530,000	1,315,000	-	3,845,000	3,560,000
Advances from other funds	-	-	-	365,112	365,112	-
Total long-term liabilities	<u>-</u>	<u>2,530,000</u>	<u>1,315,000</u>	<u>365,112</u>	<u>4,210,112</u>	<u>3,560,000</u>
TOTAL LIABILITIES	<u>2,846,449</u>	<u>2,759,583</u>	<u>1,511,914</u>	<u>368,915</u>	<u>7,486,861</u>	<u>4,225,537</u>
NET ASSETS:						
Invested in capital assets, net of related debt	8,812,961	6,072,384	5,506,635	1,554,462	21,946,442	3,280,305
Restricted for:						
Debt service	-	114,819	230,509	-	345,328	-
Unrestricted	<u>23,183,080</u>	<u>533,488</u>	<u>2,206,480</u>	<u>106,721</u>	<u>26,029,769</u>	<u>2,852,347</u>
Total net assets	<u>31,996,041</u>	<u>6,720,691</u>	<u>7,943,624</u>	<u>1,661,183</u>	<u>48,321,539</u>	<u>6,132,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$34,842,490</u>	<u>\$ 9,480,274</u>	<u>\$ 9,455,538</u>	<u>\$ 2,030,098</u>	<u>\$55,808,400</u>	<u>\$10,358,189</u>

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

For the year ended June 30, 2005

	Electric Utility Fund	Water Utility Fund	Waste Water Utility Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:						
Retiree contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,294
Cobra contributions	-	-	-	-	-	43,252
City's contribution for employees	-	-	-	-	-	1,257,115
Employee insurance co-pay	-	-	-	-	-	5,427
Charges for services	12,887,570	1,318,648	1,007,101	207,028	15,420,347	-
Equipment rental	-	-	-	-	-	799,005
Provision for self-insurance	-	-	-	-	-	177,008
Miscellaneous	-	-	-	584	584	475,476
TOTAL OPERATING REVENUES	12,887,570	1,318,648	1,007,101	207,612	15,420,931	2,870,577
OPERATING EXPENSES:						
General government	-	-	-	-	-	2,621,300
Enterprises	-	-	-	196,200	196,200	-
Capital projects	-	-	-	-	-	5,642
Production	11,597,331	312,110	275,434	-	12,184,875	-
Transmission and distribution	296,519	135,678	87,878	-	520,075	-
Station	-	-	25,431	-	25,431	-
Customer service	23,114	30,476	23,501	-	77,091	-
Administrative and general	1,023,914	467,187	354,919	-	1,846,020	-
Provision for depreciation	956,830	246,059	200,214	62,736	1,465,839	458,011
Overhead to utilities	533,475	186,318	168,537	-	888,330	-
TOTAL OPERATING EXPENSES	14,431,183	1,377,828	1,135,914	258,936	17,203,861	3,084,953
OPERATING INCOME (LOSS)	(1,543,613)	(59,180)	(128,813)	(51,324)	(1,782,930)	(214,376)
NON-OPERATING REVENUE (EXPENSES):						
State grants	-	-	-	250	250	-
Gain (loss) on sale of investments	(170,173)	(5,285)	(17,887)	(657)	(194,002)	(26,177)
Rent received	-	15,000	-	-	15,000	-
Gain (loss) on sale of property	-	-	-	-	-	1,139
Interest earnings	952,719	24,010	93,823	3,051	1,073,603	130,569
Interest expense	-	(69,419)	(31,053)	(18,669)	(119,141)	(149,496)
Operating transfers out	(519,481)	(1,433)	(1,433)	-	(522,347)	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	263,065	(37,127)	43,450	(16,025)	253,363	(43,965)
CHANGE IN NET ASSETS	(1,280,548)	(96,307)	(85,363)	(67,349)	(1,529,567)	(258,341)
Total net assets, beginning of year	33,256,335	6,796,674	8,028,987	1,728,532	49,810,528	6,390,993
Add: Contributed capital	20,254	20,324	-	-	40,578	-
TOTAL NET ASSETS, END OF YEAR	\$31,996,041	\$ 6,720,691	\$ 7,943,624	\$ 1,661,183	\$48,321,539	\$ 6,132,652

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the year ended June 30, 2005

	Electric Utility Fund	Water Utility Fund	Waste Water Utility Fund	Non-major Enterprise Fund	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM ACTIVITIES:						
Cash received for insurance costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,386,501
Cash received from customers	12,347,199	-	-	211,493	12,558,692	-
Cash received from other funds for purchase of receivables	-	1,282,266	990,862	-	2,273,128	-
Cash received from other funds for services	-	-	5,116	-	5,116	1,538,062
Cash payments to suppliers for goods and services	(12,116,824)	(495,816)	(568,361)	(98,136)	(13,279,137)	(746,153)
Cash payments to employees for services	(506,776)	(621,634)	(342,690)	(104,946)	(1,576,046)	(258,373)
Cash payments to other funds for services	(14,178)	(18,253)	(30,274)	(3,735)	(66,440)	-
Cash payment of benefits	-	-	-	-	-	(1,728,363)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(290,579)	146,563	54,653	4,676	(84,687)	191,674
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Net interfund loan transactions	11,364	-	-	(15,364)	(4,000)	-
Operating transfers out	(519,481)	(1,433)	(1,433)	-	(522,347)	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(508,117)	(1,433)	(1,433)	(15,364)	(526,347)	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:						
State revenue	-	-	-	250	250	-
Contribution of capital assets	20,254	20,324	-	-	40,578	-
Acquisition and construction of capital assets	(1,473,921)	(221,641)	(6,621)	-	(1,702,183)	(159,654)
Principal paid on bond maturities	-	(110,000)	(115,000)	-	(225,000)	(170,000)
Interest paid	-	(66,959)	(31,656)	(18,669)	(117,284)	(121,870)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(1,453,667)	(378,276)	(153,277)	(18,419)	(2,003,639)	(451,524)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Gain (loss) on sale of investments	(170,173)	(5,285)	(17,887)	(657)	(194,002)	109,851
Interest received	973,620	26,219	95,907	3,293	1,099,039	-
Rent received	-	15,000	-	-	15,000	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	803,447	35,934	78,020	2,636	920,037	109,851
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,448,916)	(197,212)	(22,037)	(26,471)	(1,694,636)	(149,999)
Cash and equivalents, beginning of year	23,513,653	755,711	2,375,237	115,326	26,759,927	3,266,600
CASH AND EQUIVALENTS, END OF YEAR	\$ 22,064,737	\$ 558,499	\$ 2,353,200	\$ 88,855	\$ 25,065,291	\$ 3,116,601
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ (1,543,613)	\$ (59,180)	\$ (128,813)	\$ (51,324)	\$ (1,782,930)	\$ (214,376)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	956,830	246,059	200,214	62,736	1,465,839	458,011
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(553,763)	(36,382)	(11,123)	3,881	(597,387)	38,886
(Increase) decrease in inventory	(1,330,354)	1,333	1,264	(2,366)	(1,330,123)	-
(Increase) decrease in prepaid expenses	(62,249)	-	-	-	(62,249)	-
Increase (decrease) in accounts payable	2,222,093	6,215	(9,205)	(8,251)	2,210,852	(85,459)
Increase (decrease) in accruals	7,075	(11,482)	2,316	-	(2,091)	(5,388)
Increase (decrease) in customer deposits	13,402	-	-	-	13,402	-
Total adjustments	1,253,034	205,743	183,466	56,000	1,698,243	406,050
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (290,579)	\$ 146,563	\$ 54,653	\$ 4,676	\$ (84,687)	\$ 191,674

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	Pension Trust Fund	Private- purpose Trusts	Agency Funds
ASSETS:			
Cash and equivalents	\$ 822	\$ -	\$ 18,762
Investments, at market	17,769,376	379,986	-
Receivables:			
Accrued interest	-	3,915	-
TOTAL ASSETS	<u>\$ 17,770,198</u>	<u>\$ 383,901</u>	<u>\$ 18,762</u>
LIABILITIES:			
Accounts payable	\$ 29,381	\$ 1,075	\$ -
Bank overdrafts	46,780	-	-
Due to other governments	-	-	18,762
TOTAL LIABILITIES	<u>\$ 76,161</u>	<u>\$ 1,075</u>	<u>\$ 18,762</u>
NET ASSETS:			
Reserved for:			
Bonifas Trust Fund	\$ -	\$ 113,759	
Bezold Trust Fund	-	269,067	
Employee's retirement system	17,694,037	-	
Unreserved	-	-	
TOTAL NET ASSETS	<u>\$ 17,694,037</u>	<u>\$ 382,826</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2005

	Pension Trust Fund	Private- purpose Trusts
OPERATING REVENUES:		
Interest and dividends	\$ 594,402	\$ 16,066
Gain (loss) on sale of investments	721,372	-
Contributions:		
City of Escanaba	418,035	-
Employees	114,686	-
TOTAL OPERATING REVENUES	<u>1,848,495</u>	<u>16,066</u>
OPERATING EXPENSES:		
Administrative and general	12,749	-
Benefits and refunds of member contributions	1,026,199	-
Cultural	-	7,748
TOTAL OPERATING EXPENSES	<u>1,038,948</u>	<u>7,748</u>
OPERATING INCOME	<u>809,547</u>	<u>8,318</u>
OTHER FINANCING SOURCES (USED):		
Gain (loss) on sales of investments	-	(1,046)
Operating transfers in	-	265,625
Operating transfers out	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>264,579</u>
NET INCOME (LOSS)	<u>809,547</u>	<u>272,897</u>
Net assets, beginning of year	<u>16,884,490</u>	<u>109,929</u>
NET ASSETS, END OF YEAR	<u>\$ 17,694,037</u>	<u>\$ 382,826</u>

See accompanying notes to financial statements.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Escanaba conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

A. Reporting Entity - The City's financial statements include the accounts of all City operations. The primary criterion applied to an activity or entity to determine if that entity should be included in the financial statements is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity. Based on these criteria and authoritative guidelines, the financial statements of the City of Escanaba include as blended funds the Escanaba Public Safety Pension Fund, the Economic Development Corporation, the Downtown Development Authority and the Escanaba Building Authority, which are separately administered organizations controlled by the City. Additionally, the Escanaba Housing Commission is included as a discretely presented component unit. The Housing Commission is a separately administered organization, but is presented as a discrete component unit in that the City has the ability to significantly influence its operations.

For financial reporting purposes, in conformance with GASB Statements 14 and 39, the City of Escanaba (the primary government) includes all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or dependent on the City's legislative branch, the City Council. Control by or dependence is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of significant subsidies from the City. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Component Units - In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as blended component units.

Blended Component Units - The City has four component units in which the financial data has been blended with the primary government financial statement.

Escanaba Public Safety Pension - For financial reporting purposes, the Escanaba Public Safety Pension is reported as if it were part of the City's operations because its board is appointed by the City

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Council and its purpose is to provide pension benefits to the City's Public Safety employees.

Economic Development Corporation - For financial reporting purposes, the Economic Development Corporation is reported as if it were part of the City's operations because its board is appointed by the City Council. The Corporation was organized pursuant to the State of Michigan, Public Act No. 338 of 1974, as amended, and the City of Escanaba, Michigan Ordinance No. 619. The primary purpose of the Corporation is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the Corporation entering into lease contracts with commercial enterprises.

Downtown Development Authority - For financial reporting purposes, the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown merchants.

Escanaba Building Authority - For financial reporting purposes, the Escanaba Building Authority is reported as if it were part of the City's operations because its board is appointed by the City Council and its purpose is to account for the financing of the Public Works Complex and the financing and maintenance of the City Hall/Library Complex.

Discretely Presented Component Unit - The City has one discretely presented component unit for which the financial data has been included in this financial statement. The component unit is reported in a separate column to emphasize that it is legally separate from the City.

Escanaba Housing Commission - For financial reporting purposes the Escanaba Housing Commission is discretely reported in these financial statements because the Housing Commission board is appointed, and may be removed, by the City Council. The data included in this report is for the Housing Commission's fiscal year ended September 30, 2004. A separate audit report is issued for the Housing Commission and a complete copy of this report can be obtained at:

Escanaba Housing Commission
110 South 5th Street
Escanaba, MI 49829

Joint Venture - The City of Escanaba is a participant with Delta County, the City of Gladstone, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commissioners. Complete financial statements for the Delta Solid Waste Landfill can be obtained directly from Delta Solid Waste Management Authority. See Note 14 for additional information.

Delta Solid Waste Management Authority
100 Delta Avenue
Gladstone, Michigan 49837

B. Basis of Presentation - The City has adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, as described below.

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements - The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if they meet the following criteria:

- a. Total assets, liabilities, revenues, or expenditure/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditure/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.
- c. Additionally, State of Michigan requirements are considered. The state has requested that the Major and Local Street Funds be listed as major funds.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following funds as major governmental funds in accordance with the previously listed criteria:

General Fund
Major Street Fund
Local Street Fund

The City reports the following funds as major enterprise funds in accordance with the previously listed criteria:

Electric Utility Fund
Water Utility Fund
Waste Water Utility Fund

The funds of the City are described below:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds used by the City are as follows:

Major Street Fund - This fund accounts for revenues and expenditures in connection with the street system designated as major streets by the State of Michigan. This fund is required under state law.

Local Street Fund - This fund accounts for revenues and expenditures in connection with the street system designated as local streets by the State of Michigan. This fund is required under state law.

Parking Maintenance Fund - This fund accounts for revenues and expenditures related to the maintenance of parking lots.

Downtown Development Authority Fund - This fund accounts for revenues and expenditures in connection with developing and maintaining the Downtown Development Authority District.

Brownfield Fund - This fund accounts for the revenues and expenditures in connection with developing and maintaining contaminated properties in the Brownfield zone. The major source of revenue is tax assessed on the growth and development of properties within the plan.

Drug Law Enforcement Fund - This Fund accounts for the revenues and expenditures in connection with forfeitures received both locally and from UPSET.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Library Fund - This fund accounts for revenues and expenditures directly attributable to library operations.

Housing Rehab Fund - This fund accounts for revenues and expenditures attributable to the City's program of rehabilitating substandard rental and owner occupied housing. Major financing sources include the U. S. Department of Housing and Urban Development, the Michigan State Housing Development Authority and the reuse of UDAG/DIAL funds.

Grants Fund - This fund accounts for revenues from various sources, including City matching shares, received under one-time grants. Expenditures are restricted to accomplishing the goals as defined in the individual grant offers.

Urban Development Action Grant Fund (UDAG/DIAL) - This fund has been established to account for funds granted to the City by the U.S. Department of Housing and Urban Development to make a loan to the Dial Corporation to be used for Delta Plaza improvements and related expenditures. Collections of interest and principal on this loan must be used for economic development activities.

Farmers Home Grant Fund - This fund was established to account for funds granted to the City by the Rural Development Administration, United States Department of Agriculture. The grant produced \$200,000 to be used by Calouette Industrial Properties for the renovation of buildings on the former Harnischfeger site. The grant called for a \$50,000 loan and a \$150,000 grant.

E.D.A. Revolving Loan Fund -

M.S.C. Revolving Loan Fund II - These funds were established to account for funds granted to the City to make loans to concerns which show the capacity for the creation of jobs. The E.D.A. Revolving Loan Fund was established through the U.S. Department of Commerce, under its Economic Development Administrations's Title IX Adjustment Implementation Program. The M.S.C. Revolving Loan Fund II was established through the State of Michigan's Department of Commerce Michigan Small Cities Program. Under each grant, loan repayments, including interest, are used to make further loans to concerns meeting specific criteria.

Land Development Fund - This fund accounts for revenues and expenditures in connection with the development and sale of City-owned land. It was established to provide on-going financing for water, sewer, storm sewer and street development on City owned properties.

Sanitary Landfill Fund - This fund was established by City ordinance and records receipts of garbage pickup fees by the City utility billing department. Fees are used to offset garbage pickup expenses in the General Fund.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Projects Fund - The City has one capital projects fund to account for expenditures relating to significant capital projects. During the year, the City recorded no significant capital project activities.

Permanent Fund - The Gas Retirement Fund is the City's only permanent fund. This fund accounts for funds received from the sale of the City's gas utility in June, 1965, to Michigan Consolidated Gas Company. By a vote referendum on November 2, 1965, the City is prohibited from expending any principal resulting from the sale. Additionally, the interest earned from the investment of the principal must be spent on "capital improvements" only.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. Enterprise Funds used by the City are as follows:

Electric Utility Fund - This fund is used to record the operations of an electrical system.

Water Utility Fund - This fund is used to record the operations of a water system.

Waste Water Utility Fund - This fund is used to record the operations of a waste water system.

Marina Fund - This fund is used to record the operations of a marina.

Internal Service Funds - Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, on a cost-reimbursement basis. In the government-wide financial statements, Internal Service Fund activity is included with the governmental activities. Internal Service Funds used by the City are as follows:

Escanaba Building Authority Fund - This fund is used to account for the financing of both the Public Works Complex and the City Hall/Library Complex. Such costs are billed to user departments in the form of rent.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Motor Vehicle Equipment Fund - This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments. Such costs are billed to user departments in the form of rent.

Office Equipment Fund - This fund accounts for the cost of acquiring, maintaining and providing various office equipment usage to various City departments. Such costs are billed to user departments in the form of rent.

Risk Retention Fund - This fund is used to account for the City's partially self-insured general liability and property coverage.

Dental Fund - This fund is used to account for the City's dental self-insurance program.

Health Insurance Fund - This fund is used to account for the City's health insurance program, which is partially self-insured.

Worker's Compensation Fund - This fund is used to account for the City's workers' compensation self-insurance program.

Unemployment Compensation Fund - This fund is used to account for the City's unemployment compensation self-insurance program.

FIDUCIARY FUNDS

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations. Trust and Agency Funds of the City are as follows:

Private Purpose Trust Funds:

Catherine Bonifas Trust Fund - This fund accounts for monies received from a bequest under the Last Will and Testament of Catherine Bonifas.

Bezold Trust Fund - This fund accounts for monies received from a bequest from the estate of Margaret Bezold.

Economic Development Corporation Fund - This fund accounts for the applicable fees collected for the processing of economic development loans, for the collection of lease payments from K-Mart Corporation and for the retirement of the bond issue for the K-Mart project. This fund was closed during the fiscal year ended June 30, 2004 as the bond was paid off.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension Trust Fund:

Public Safety Retirement Fund - This fund is used to record the operations of the public safety employees' retirement system.

Agency Funds:

Tax Collection Fund - This fund is used to account for the collections and payment of amounts received by the City in an agency capacity for governmental units assessing a property tax on property within the City limits.

C. Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

Measurement Focus - On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the "economic resources" focus, which is described in paragraph (b) below:

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds, which include private purpose trust funds, utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds, which include pension trust funds, utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or non-current, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency Funds are not involved in the measurement of results of operations; therefore measurement focus is not applicable to them.

D. Basis of Accounting - In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when they become measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after the year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

E. Assets, Liabilities and Net Assets/Fund Balances:

1. Cash and Equivalents - The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
2. Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City has not recorded an allowance for uncollectible accounts, as the City does not anticipate that amount to be material.
3. Due to and Due From Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.
4. Inventory - Inventories are valued at cost, which approximates market, using the weighted average method. The General Fund purchases the inventory for the various funds. These inventories relate primarily to the utility funds. Inventories are recorded as an expenditure/expense at the time the individual items are consumed.
5. Fixed Assets - The accounting and reporting treatment applied to property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and on whether the assets are reported in the government-wide financial statements or the fund financial statements.

Government-wide Statements - In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual cost was unavailable. Donated fixed assets are recorded at their estimated fair market value as of the date of donation.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prior to July 1, 2002, the governmental funds infrastructure assets, the major and local street systems, were not capitalized. These assets have been valued at their estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the estimated useful life of the asset using the straight-line method of depreciation. The range of estimated useful lives, by fund, is as follows:

Electric Utility Fund:	
Operating plant	5 - 40 years
Distribution system and equipment	4 - 40 years
Water Utility Fund:	
Water plant and distribution system	2 - 75 years
Equipment	2 - 15 years
Waste Water Utility Fund:	
Structures	10 - 50 years
Mains	75 years
Equipment	5 - 20 years
Marina Fund:	
Boat launch/parking	20 - 50 years
Furniture, fixtures and equipment	5 - 15 years
Marina docks, piers and walls	20 - 75 years
Harbor Master building	40 - 50 years
Internal Service Funds (Governmental):	
Escanaba Building Authority	3 - 45 years
Motor Vehicles and Equipment	3 - 25 years
Office Equipment	2 - 10 years
Other Assets (Governmental):	
Land improvements	30 - 50 years
Buildings	20 - 50 years
Infrastructure	20 - 50 years
Equipment	5 - 30 years

Fund Financial Statements - In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

6. Long-term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide financial statements or the fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and notes payable.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and the payment of principal and interest is reported as expenditures. The accounting for long-term debt for the proprietary funds is the same in the fund financial statements as it is in the governmental-wide financial statements.

7. Compensated Absences - The City's policies regarding vacation and sick time allow employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
8. Deferred Revenues - In the government-wide financial statements and the proprietary fund financial statements, deferred revenue is recognized when cash, receivables or other assets are received prior to being earned. In the fund financial statements, deferred revenue is recognized when the revenue is unearned or unavailable.
9. Equity Classification

Government-wide Financial Statements - Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - This component consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets - This component consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements - Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved being further segregated between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Revenues

Government-wide Financial Statements - In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business type) and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues that do not meet the criteria of program revenues and include revenues such as property taxes, state revenue sharing payments and interest earnings.

Fund Financial Statements - In the governmental fund statements, revenues are reported by source, such as federal, state and taxes. Revenues consist of general-purpose revenues and restricted revenues. General-purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available only for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general-purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

G. Expenses/Expenditures

Government-wide Financial Statements - In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business type) and are classified by function.

Fund Financial Statements - In the governmental fund financial statements, expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and non-operating and are further classified by function, such as salaries, supplies and contracted services.

H. Operating Revenues and Expenses - Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

I. Other Financing Sources (Uses) - The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers, unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds, respectively.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Activity - As a general rule, the interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

Interfund receivables and payables have been eliminated from the Statement of Net Assets except for the residual amounts due between governmental and business-type activities.

K. Budget and Budgetary Accounting - The development and adoption of the City's budget is based upon requirements as set forth in both the City Charter and Act 2, P.A. of 1968 of the State of Michigan, the "Uniform Budgeting and Accounting Act." The following is a summary of the significant legal requirements and the City's policies.

Budgetary Basis of Accounting - Act 2, Public Acts of 1968 of the State of Michigan requires a formal budget for all funds except Internal Service, Enterprise or Public Improvements/Building and Site Funds, which require an "informational summary" in lieu of a formal budget. The City Charter requires submission of the budget to the City Council no later than two months prior to the beginning of the next fiscal year. The City Charter further defines the information required to be presented in the budget and the requirement for a public hearing prior to adoption. The City Charter and state law also require that an appropriations ordinance be adopted, based on the approved budgets, no later than one month prior to the ensuing fiscal year. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Appropriations Ordinance - As prescribed by state law, the City's annual appropriations ordinance includes the legal expenditure limitations for all Governmental Fund Types. This includes the General Fund, all Special Revenue Funds, and all Capital Projects Funds. Proprietary Funds do not require inclusion in the appropriations ordinance.

The appropriations ordinance prescribes the legal expenditure limits for all funds required to be included in the ordinance. The level of control for each fund is based upon the level to which the appropriation ordinance details it. Most budgets are adopted on a fund basis, but the General Fund is adopted on the activity level of various functions or programs within the General Fund. Administrative control of expenditures is maintained through the utilization of the detailed line item budgets upon which the appropriations ordinance is formulated.

Budget Amendment - The City Charter states that at any meeting after the passage of the appropriations ordinance, with at least one week's printed

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

notice in a city newspaper, the Council may amend the appropriations ordinance. Budget amendments may be required due to several factors; receipt of outside grants during the year, expenditures for unanticipated developments and projects continuing over two fiscal years. Unexpended appropriations lapse at year end with the exception of the Capital Projects Funds. The budgeted amounts listed in this report are as originally adopted and as amended by the Council on June 16, 2005.

Budgetary Calendar

1. The City holds public hearings on the budget from January through April. These publicized meetings are designed to encourage public input into City programs and are held at these times to allow integration of suggestions into the budgetary process.

2. Budgets are developed and reviewed with the City Council at budget work sessions open to the public. Department heads are given the opportunity to support their requests during these sessions.

3. The City holds two public hearings in May on the budgets, publicized and open to the public. At the second meeting, budgets are adopted and the appropriations ordinance is drafted based on the adopted budget.

4. The appropriations ordinance is formally adopted prior to June 1.

5. The City Manager is authorized to transfer budgeted amounts between line items within most funds. For the General Fund, this is limited to the activity level of various functions or programs. However, any revisions that alter the total expenditures of most funds or the activity level expenditures of the General Fund must be approved by the City Council.

L. Investments - In compliance with Governmental Accounting Standards Board Statement No. 31 (GASB 31), all investments are stated at market value as of June 30, 2005.

The primary purpose of GASB 31 is to alert financial statement users of any possible problems with investment portfolios, based on differences between cost and market. By requiring that financial statements reflect investments at market, it effectively requires that any differences between cost and market values - unrealized gains and losses - are treated as recognized gains and losses. The treatment of recognizing unrealized gains and losses is recorded on the City's books as "Gain (loss) on sale of investments" in each of the City's funds that this applies to.

The creation of unrealized gains and losses is a condition resulting from the change in interest rates which occurs continuously in the world's financial markets. Generally, as interest rates fall, the market value of investments rise and as interest rates rise, the market value of investments fall. While techniques can be used to minimize this impact and to predict future interest rate direction, the reality is that these changes

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are a simple fact of investing. GASB 31 was an attempt to recognize that as these changes occur in financial markets, it can impact an entity's future funds availability. Numerous governmental entities have suffered major financial impacts resulting from these shifts in market conditions. Theoretically, by recording investments at market, financial statement readers are alerted to potential problems of this nature.

The problem with GASB 31 is that it requires the recognition of revenue that hasn't been, and may never be, received. Not only does this impact the financial statements in a manner which cannot be reasonably budgeted for, it can lead to even greater distortions in future years. The basic structure of the City's portfolio is a "laddering" approach; as funds become available for investing, they are generally invested for a duration longer than the investments which are currently owned, depending on the rates that the market is providing. As a result, the City has investments maturing on a regular basis. Having to sell investments at a loss in order to raise cash will seldom, if ever, occur.

Because the City believes that the imposition of GASB 31 on the City's financial statements has an inappropriate effect, the schedule below details, for each fund impacted, the audited results, the impact of GASB 31, and the financial results without the imposition of GASB 31.

<u>Fund</u>	<u>Audited Results</u>	<u>GASB 31 Impact</u>	<u>Actual Results</u>
General Fund	\$ (118,084)	\$ 32,217	\$ (85,867)
Major Street Fund	54,595	3,819	58,414
Local Street Fund	29,088	1,721	30,809
Parking Maintenance Fund	(251)	10	(241)
Downtown Development Authority	92,205	3,394	95,599
Brownfield Fund	3,543	48	3,591
Drug Law Enforcement Fund	7,239	-	7,239
Library Fund	(273,831)	1,205	(272,626)
Housing Rehab (Fund 274)	(13,106)	527	(12,579)
Grants Fund	798	-	798
UDAG/DIAL Grant Fund	93,500	6,061	99,561
E.D.A. Revolving Loan Fund	59,342	7,131	66,473
Farmers Home Grant Fund	2,435	560	2,995
M.S.C. Revolving Loan Fund II	(115,285)	3,092	(112,193)
Land Development Fund	8,606	11,908	20,514
Sanitary Landfill Fund	(728)	647	(81)
Electric Utility Fund	(1,280,548)	170,173	(1,110,375)
Water Utility Fund	(96,307)	5,285	(91,022)
Waste Water Utility Fund	(85,363)	17,887	(67,476)
Marina Fund	(67,349)	657	(66,692)
Escanaba Building Authority	4,825	2,407	7,232
Motor Vehicle and Equipment Fund	(185,017)	8,048	(176,969)
Office Equipment Fund	(399)	952	553
Risk Retention Fund	16,831	559	17,390
Dental Fund	(27,413)	412	(27,001)
Health Insurance Fund	26,614	-	26,614
Worker's Compensation Fund	(96,005)	10,615	(85,390)
Unemployment Compensation Fund	2,223	3,184	5,407
Catherine Bonifas Trust	3,830	845	4,675
Bezold Trust Fund	269,067	201	269,268
Gas Retirement Fund	(31,804)	9,624	(22,180)

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Post-retirement Benefits - Post-retirement benefits consist primarily of pension benefits as explained in Note 8. Additionally, retirees are able to obtain health insurance through the City's insurance carrier at their own cost.

N. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGET NONCOMPLIANCE

The City has not complied with certain provisions of the Michigan Uniform Budgeting and Accounting Act. Items of noncompliance are as follows.

The following functions in the General Fund were overspent:

Stenographer	\$ 1,674
Community Promotion	642

NOTE 3 - CASH, DEPOSITS AND INVESTMENTS

Cash balances of most City funds are pooled for investment purposes. Interest earnings and any net short-term gains on sales of investments purchased with pooled funds are allocated monthly to each of the funds based on their daily equity balance. The carrying amount of pooled cash and investments on June 30, 2005 and 2004 was \$37,271,189 and \$39,100,963, respectively.

The City also has several funds which do not participate in the investment pool. The majority of non-pooled cash and investments is owned by the Public Safety Pension Fund. The carrying amount of non-pooled cash and investments as of June 30, 2005 and 2004 was \$18,925,154 and \$18,107,126, respectively. Of those amounts, the Public Safety Pension Fund owned approximately 94 percent at June 30, 2005 and 93 percent at June 30, 2004.

The investment of City funds is governed by state statutes. In general, state statute provides that the City is authorized to invest their pooled funds in bonds, direct obligations and repurchase agreements of the United States Government or an agency of the same; deposits in insured financial institutions having their primary office in Michigan; commercial paper rated prime; banker's acceptances issued by United States banks; and mutual funds that invest in any of the preceding investments.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3 - CASH, DEPOSITS AND INVESTMENTS (continued)

The major restriction placed on non-pooled investments is based on State statutes governing the Public Safety Pension Fund. These statutes define the types of investments (including equity investments, which are not legal for the pooled funds) that the fund can make and further define the permitted ratios of investments. In addition, the Public Safety Pension Fund governing board currently has a sixty (60) percent ceiling on equities as a proportion of total investments.

Investment requirements imposed by local bonding ordinances are an additional restriction placed on non-pooled deposits and investments. These ordinances require funds which serve as bond reserves to be separately invested in obligations of the United States Government or its agencies or instrumentalities.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Deposits - At June 30, 2005, the carrying amount of the City's deposits was \$1,719,228 and the bank balance was \$2,011,015. Of the bank balance, \$386,597 was covered by federal depository insurance and \$1,624,418 was uninsured and uncollateralized. Cash and equivalents on the statement of net assets also includes \$3,775 of cash on hand.

Cash Equivalents - Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. Examples of cash equivalents include treasury bills, commercial paper, money market funds, and cash management pools.

A reconciliation of cash and investments to bank deposits and total investments noted on the following page is as follows:

Government-wide Statement of Net Assets

Presentation:

Cash and equivalents	\$ 1,492,674
Investments, at market	36,236,175
Restricted cash and investments	<u>345,328</u>
Subtotal	<u>38,074,177</u>

Statement of Fiduciary Net Assets

Presentation:

Cash and equivalents	19,584
Bank overdrafts	(46,780)
Investments, at market	<u>18,149,362</u>
Subtotal	<u>18,122,166</u>
TOTAL	<u>\$ 56,196,343</u>

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3 - CASH, DEPOSITS AND INVESTMENTS (continued)

The City's investments are stated at fair value, which is determined using the current stock and bond indexes, as appropriate. For investments that do not have established market values, estimated fair value is used.

The following schedule lists the investments and maturities of the City as of June 30, 2005:

	<u>Market</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than One</u>	<u>One to Five</u>	<u>Six to Ten</u>	<u>Over Ten</u>
Investments:					
Operating Funds:					
U. S. Treasury Obligations	\$11,619,967	\$2,989,870	\$ 6,485,324	\$2,144,773	\$ -
U. S. Agencies	12,000,000	1,000,000	9,000,000	1,000,000	1,000,000
CD's listed as investments	<u>13,001,974</u>	<u>5,903,512</u>	<u>7,098,462</u>	<u>-</u>	<u>-</u>
Total	<u>\$36,621,941</u>	<u>\$9,893,382</u>	<u>\$22,583,786</u>	<u>\$3,144,773</u>	<u>\$1,000,000</u>

Of the U. S. agency obligations listed above, \$1,000,000 of the investments that mature in less than one year have a call date of August 5, 2005. \$1,000,000 of the investments that mature in six to ten years have a call date of May 24, 2006 and \$1,000,000 have a call date of October 6, 2006. The remainder of the investments are not callable.

In addition to the above holdings, the City (which includes funds held by the Public Safety Officer Pension Trust Fund (PSO)), had the following holdings, which are also recorded at market value:

	<u>Market Value</u>
Investment:	
Operating Funds:	
Money Market Funds:	
Merrill Lynch	\$ 81,201
Pension Funds:	
Mutual Funds:	
Vanguard Small Cap Index Fund	1,454,004
Eaton Vance Fund of Boston	1,873,141
Vanguard 500 Index Fund	5,170,868
Vanguard Total Bond Market Index Fund	5,901,332
JP Morgan Mid Cap Value Fund	<u>3,370,853</u>
	<u>\$17,851,399</u>

Interest Rate Risk - The City's investment policy follows state law with the exception that while state law has no maximum maturity on investments, the City requires that investments not exceed twelve years. None of the City's investments exceeded this threshold. The PSO's investment policy follows state law.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3 - CASH, DEPOSITS AND INVESTMENTS (continued)

Credit Risk - The City's and the PSO's investment policy follows state law. Of the U.S. Agency investments listed above \$3,990,850 were rated AAA by Standard & Poor's. The remainder was not separately rated. The money market funds held by the City and the mutual funds held by the PSO were not separately rated.

Custodial Credit Risk - The City's investment policy states that brokerages offering securities to the City are required to maintain all securities in a separate account and to not aggregate the City's securities with those of other account holders. The PSO's investment policy follows state law.

Concentration of Credit Risk - The City's investment policy states that no more than fifty percent of its surplus funds may be invested in certificates of deposit. As of June 30, 2005, the City had 23.8% of its surplus funds invested in certificates of deposit. Additionally, the City is only allowed to invest up to ten percent of its pooled funds in commercial paper and repurchase agreements. As of June 30, 2005, the City had no funds invested in either commercial paper or repurchase agreements.

The PSO's investment policy prohibits any one security exceeding five percent of an overall fund. No investment exceeded this threshold during the fiscal year. Additionally, no one industry can represent more than twenty percent of an individual fund. No industry represented more than twenty percent of an individual fund during the fiscal year.

NOTE 4 - UTILITY RECEIVABLES

The City's net receivables for utility services (Electric, Water, and Waste Water) are summarized as follows:

Billed Receivables	\$ 1,244,391
Unbilled Receivables	<u>1,001,900</u>
Total Receivables	2,246,291
Less: Allowance for doubtful accounts	<u>(51,117)</u>
Net Receivables	<u>\$ 2,195,174</u>

The City's Sanitary Landfill Special Revenue Fund also shows \$12,248 of billed receivables and \$9,982 of unbilled receivables which are categorized under accounts receivable in the financial statements.

NOTE 5 - MORTGAGES, LAND CONTRACTS AND OTHER NOTES RECEIVABLE

Long-term receivables due the City at June 30, 2005 and 2004 consist of the following:

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5 - MORTGAGES, LAND CONTRACTS AND OTHER NOTES RECEIVABLE (continued)

Debtor	Original Amount of Loan	Inter- est Rate	Monthly Payment	Collateral	Balance June 30,	
					2005	2004
<u>Housing Rehab Fund:</u>						
Eva Brown	\$ 3,696	0.0%	260(a)	Building	\$ -	\$ 1,098
<u>UDAG/DIAL Grant Fund:</u>						
DIAL Enterprises	1,221,264	(b)	(b)	Real Estate	816,439	854,422
K & D Enterprises	5,985	7.0%	239(a)	Real Estate	2,337	3,293
DDD & S Facade Loan	20,000	0.0%	500(a)	Real Estate	7,000	9,000
Golden Comb	10,000	0.0%	357(a)	Real Estate	2,500	3,571
Pioneer TV Facade Loan	10,000	0.0%	250(a)	Real Estate	3,500	4,500
E&S Eisenberger Facade Loan	10,015	0.0%	357(a)	Real Estate	1,114	2,543
Baron's Bar	35,700	8.5%	732	Real Estate	-	424
Bobaloons - Lueneburg	9,526	0.0%	349(a)	Real Estate	-	4,762
Benoit's Glass & Lock	10,000	0.0%	57(a)	Real Estate	1,368	5,357
William & Donna Perron	10,000	0.0%	305(a)	Real Estate	2,437	3,508
Barbara Dorn/Al Gossan	10,000	0.0%	357(a)	Real Estate	3,571	5,000
American Express/Mike Gelina	10,000	0.0%	357(a)	Real Estate	-	5,714
Fyhr Enterprises	8,288	0.0%	296(a)	Real Estate	3,552	4,736
Kitchen Place	10,000	0.0%	357(a)	Real Estate	4,589	5,661
Industrial Maint. Supply	10,000	0.0%	357(a)	Real Estate	-	9,654
8th Street Coffee House	25,000	5.5%	359(c)	Real Estate	-	19,186
Lawrence and Karen Anderson	10,000	0.0%	357(a)	Real Estate	5,843	9,371
LeCaptain	10,000	0.0%	357(a)	Real Estate	-	7,743
Clare Bedding	8,925	0.0%	319(a)	Real Estate	5,737	7,012
Boomer's/Crawford/Hoskings	35,000	4.75%	491(a)	Real Estate	26,184	31,482
Richard Malone	10,000	0.0%	357(a)	Real Estate	7,500	8,572
Craig Woerpel	10,000	0.0%	357(a)	Real Estate	9,296	9,643
Tom & Connie Harris	10,000	0.0%	357(a)	Real Estate	8,235	10,000
Swedish Pantry	9,742	0.0%	348(a)	Real Estate	8,698	9,742
Pioneer TV Facade Loan #2	10,000	0.0%	357(a)	Real Estate	10,000	-
Wedding Center/Ray Krusic	10,000	0.0%	357(a)	Real Estate	10,000	-
Kenneth Schwalbach	10,000	0.0%	357(a)	Real Estate	5,587	-
Tim Kitchen	21,000	5.75%	304	Real Estate	20,775	-
FUND TOTALS					966,262	1,034,896
<u>EDA Revolving Loan Fund:</u>						
E.M.P., Inc.	750,000	7.25%	14,940	Promissory Note	-	15,412
E.M.P., Inc.	700,000	4.75%	13,130	All Assets	288,032	428,250
RT Mfg.	235,000	4.0%	4,328	Promissory Note	187,625	235,000
Michigan Meats	335,000	5.75%(d)	2,030	Promissory Note	134,626	-
FUND TOTALS					610,283	678,662
<u>M.S.C. Revolving Loan Fund II:</u>						
Escanaba Foundation	62,500	8.0%	523	Hanger Building	28,136	31,999
M & M Enterprises	189,720	6.0%	2,772	Promissory Note	7,790	7,790
E.M.P., Inc.	237,400	7.25%	4,729	Promissory Note	-	4,878
E & S Eisenberger	108,800	8.5%	1,004	All assets	81,187	88,769
E.M.P., Inc.	400,000	4.75%	7,503	All Assets	164,590	244,715
P&B Associates	123,000	4.5%	910	Promissory Note	118,332	-
FUND TOTALS					400,035	378,151
<u>Land Development Fund:</u>						
Schwalbach Corporation	39,600	9.0%	451	Property	2,140	7,108
A.M. Express	63,200	6.0%	702	Property	9,986	17,557
FUND TOTALS					12,126	24,665
TOTALS					\$1,988,706	\$2,117,472

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5 - MORTGAGES, LAND CONTRACTS AND OTHER NOTES RECEIVABLE (continued)

- (a) Quarterly payment.
- (b) For the period commencing on December 1, 1993 and ending December 1, 2003, payments of principal and interest at 4 percent in the amount of \$6,446 will be made. For the period December 1, 2003 to December 1, 2008, payments of principal and interest at 6 percent in the amount of \$7,354 will be made. On December 1, 2008, the note will mature, at which time the entire unpaid balance of approximately \$662,000 will be due.
- (c) Monthly payment.
- (d) Interest shall commence accruing upon advancement of loan funds. Interest rate shall be 1.75% below New York Composite Prime Rate. Simple interest and interest rate shall be adjusted every three (3) years to reflect any changes to the New York Composite Prime Rate.

NOTE 6 - PROPERTY TAXES

The City's annual property tax on real and personal property is levied, by action of the City Council, no later than June 1 annually, and becomes an enforceable lien on July 10, payable by September 15, and is based on the taxable valuation of property on the preceding December 31. The City bills and collects its own property taxes and also acts as collection agent for all overlapping governments in the City, which includes the local school district, intermediate school district, community college and the County. Collections of property taxes for overlapping governments are accounted for in the Tax Collection Agency Fund. City property tax revenues are recognized during the year in which they are collected. An allowance for delinquent taxes is provided for receivables not expected to be collected during the year.

In 1982, Delta County established a real property tax revolving fund. Each March 1, all unpaid real property taxes become delinquent and are sold to the County. At March 1, 2004 and 2005, total delinquent real property taxes sold to the County totaled \$186,213 and \$192,373, respectively.

NOTE 7 - CAPITAL ASSETS

A summary of changes in governmental activities capital assets is as follows:

	Balance 06/30/04	Additions	Retirements and other Deductions	Balance 06/30/05
Land, not being depreciated	\$ 969,723	\$ 175,822	\$ 11,877	\$ 1,133,668
Land improvements	4,866,996	102,808	-	4,969,804
Buildings and improvements	9,030,621	6,721	-	9,037,342
Parking lots	356,131	-	-	356,131
Industrial land and buildings	16,913	-	-	16,913
Vehicles and equipment	6,911,824	401,749	160,660	7,152,913
Infrastructure	13,927,114	485,205	177,014	14,235,305
Total capital assets	36,079,322	1,172,305	349,551	36,902,076

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 - CAPITAL ASSETS (continued)

	Balance 06/30/04	Additions	Retirements and other Deductions	Balance 06/30/05
Less accumulated depreciation:				
Land improvements	650,501	133,731	-	784,232
Buildings and improvements	2,336,819	205,577	-	2,542,396
Parking lots	66,811	11,873	-	78,684
Industrial land and buildings	9,588	564	-	10,152
Equipment	4,375,236	442,550	144,415	4,673,371
Infrastructure	4,003,697	434,857	177,014	4,261,540
Total accumulated depreciation	11,442,652	1,229,152	321,429	12,350,375
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	<u>\$24,636,670</u>	<u>\$ (56,847)</u>	<u>\$ (28,122)</u>	<u>\$24,551,701</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 255,929
Public Safety	186,233
Highways, streets and public works	540,315
Community services	552
Recreation	156,508
Cultural	82,307
Economic development	7,308

Total governmental activities depreciation expense \$1,229,152

A summary of business-type activities property, plant and equipment at June 30, 2005 is as follows:

	Balance 06/30/04	Additions	Retirements and other Deductions	Balance 06/30/05
Land, not being depreciated	\$ 56,953	\$ -	\$ -	\$ 56,953
Land improvements	1,687,192	-	-	1,687,192
Buildings and improvements	20,712,122	389,588	-	21,101,710
Electric generating equipment	10,870,647	1,008,676	-	11,879,323
Transmission and distribution systems	19,342,638	294,672	29,169	19,608,141
Other machinery and equipment	1,084,944	54,560	2,408	1,137,096
Construction in progress	86,518	10,645	55,958	41,205
Total capital assets	<u>53,841,014</u>	<u>1,758,141</u>	<u>87,535</u>	<u>55,511,620</u>
Less accumulated depreciation:				
Land improvements	628,580	43,595	-	672,175
Buildings and improvements	9,575,213	728,041	-	10,303,254
Electric generating equipment	7,275,078	247,668	-	7,522,746
Transmission and distribution systems	9,400,038	386,707	29,169	9,757,576
Other machinery and equipment	816,895	59,828	2,408	874,315
Total accumulated depreciation	<u>27,695,804</u>	<u>1,465,839</u>	<u>31,577</u>	<u>29,130,066</u>
NET BUSINESS TYPE ACTIVITIES CAPITAL ASSETS	<u>\$26,145,210</u>	<u>\$ 292,302</u>	<u>\$ 55,958</u>	<u>\$26,381,554</u>

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 - CAPITAL ASSETS (continued)

Depreciation expense was charged as follows:

Electric	\$ 956,830
Water	246,059
Waste water	200,214
Marina	<u>62,736</u>
Total business-type activities depreciation expense	<u>\$1,465,839</u>

NOTE 8 - PENSION PLANS

Public Safety Pension Plan

A. Plan Description - The Escanaba Public Safety Pension Fund is a single employer public employee retirement system established and administered by the City to provide pension benefits exclusively for all of its public safety officers. The Pension Fund is accounted for as a separate Pension Trust Fund. At June 30, 2004, the date of the most recent actuarial valuation, membership in the Pension Fund consisted of 35 current employees and 47 retirees and beneficiaries currently receiving benefits and two terminated employees entitled to but not yet receiving future benefits.

The Public Safety Pension Fund provides retirement benefits as well as death and disability benefits. Employees who retire at any age with 25 or more years of service or age 60 regardless of service are entitled to an annual retirement benefit, payable for life, in an amount equal to 3.0% of their three-year average final compensation (AFC) multiplied by their first 25 years of service, for a maximum benefit of 75% of final average compensation. A deferred retirement is earned by an employee who terminates before retirement age and has 10 or more years of service. The plan provides for a minimum retiree pension amount of \$500 per month. This minimum is also applicable to surviving spouses. The annual retirement benefit payable to a qualifying retiree is increased by 1.0% (1.5% for those retirees and beneficiaries retiring after July 1, 2002) per year, compounded annually.

Covered employees are required to contribute 5.0% of their compensation to the plan if the City's contribution rate is below 6.83%. If the City's contribution rate rises above 6.83%, then members are required to contribute 6.0% to the plan. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. City contributions are actuarially determined and based on the individual entry-age method.

B. Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2004. Significant actuarial assumptions used in determining the actuarial

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - PENSION PLANS (continued)

accrued liability included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional salary increases of 0.2% to 4.0% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the June 30, 2004 actuarial valuation to determine the annual employer contribution amounts. The individual entry-age actuarial cost method was used to determine the entries at disclosure.

GASB 25 INFORMATION

Actuarial Accrued Liability:	
To retirants and beneficiaries	\$10,116,183
To present active members:	
Member contributions	926,089
Employer financed portion	<u>7,840,795</u>
Total actuarial accrued liability	18,883,067
Actuarial value of assets	<u>18,431,090</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 451,977</u>

GASB 27 INFORMATION

Contributions Required and Contributions Made - The funding policy of the plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended June 30, 2004 were determined using the individual entry-age actuarial cost method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of thirty years. The following table provides a schedule of contribution amounts and percentages for recent years.

Year ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percent <u>Contributed</u>
2000	\$ 147,844	100%
2001	108,776	100%
2002	107,352	100%
2003	123,488	100%
2004	219,191	100%

The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year. These amounts are determined by applying the computed employer percent of payroll contribution rate to the actual pay during the fiscal year.

The employer portion of the contribution for the fiscal year ending June 30, 2005 was calculated at 21.87% of the valuation payroll. This calculates out to \$418,035.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - PENSION PLANS (continued)

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
6/30/00	\$18,621,940	\$14,217,589	\$ (4,404,351)	131%	\$ 1,646,791	-%
6/30/00*	18,621,940	14,406,431	(4,215,509)	129%	1,646,791	-%
6/30/01	19,330,612	15,133,840	(4,196,772)	128%	1,751,810	-%
6/30/02	19,274,620	16,233,484	(3,041,136)	119%	1,681,701	-%
6/30/02*	19,274,620	16,582,195	(2,692,425)	116%	1,681,701	-%
6/30/03	18,797,603	17,360,814	(1,436,789)	108%	1,708,691	-%
6/30/03@	18,797,603	18,293,107	(504,496)	103%	1,708,691	-%
6/30/04	18,431,090	18,883,067	451,977	98%	1,867,349	24%

* After changes in benefit provision.

@ After changes in assumptions.

Michigan Municipal Employees Retirement System

A. Plan Description - The City of Escanaba contributes to the Michigan Municipal Employees Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan. The plan issues a stand-alone financial report.

All full-time and certain part-time City employees, except for Public Safety employees, who are covered exclusively under the Public Safety Pension Plan, are eligible to participate in the MERS. Benefits vest after 10 years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with reduced benefits. Employees with 25 years or more of credited service may retire at or after age 50 with reduced benefits. Employees, other than members of the Dispatcher's, Teamster's or Electrician's divisions, with 30 years of credited service may retire at or after age 55 with full benefits. Members of Dispatcher's, Teamster's or Electrician's divisions may retire with full benefits at or after age 55 with 25 years of credited service. The annual retirement benefits of part-time division employees are equal to 2.0% of their average annual compensation for their last three years of employment multiplied by their years of credited service. The Non-Union, Teamster's, Dispatcher's, Water/Waste Water and Electrician's divisions have a benefit which calls for annual retirement benefits equal to 2.25% of average annual compensation for the last three years of employment multiplied by years of credited service, with a maximum benefit of 80% of final average compensation. Benefits for all divisions except part-time include a provision for automatic non-compounded increases for all pensioners and their beneficiaries. The annual increase equals the smaller of 1% or the increase in the consumer price index.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - PENSION PLAN (continued)

B. Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional salary increases of 0.00% to 8.4% per year, depending on age, attributable to merit and longevity.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits		\$ 9,110,515
Terminated employees not yet receiving benefits		813,600
Current employees -		
Accumulated employee contributions including allocated investment income		141,273
Employer Financed		<u>13,521,367</u>
Total Actuarial Accrued Liability		\$ 23,586,755
Net Assets Available for Benefits at Actuarial Value		<u>17,612,343</u>
(Market Value is \$17,191,746)		
Unfunded (Overfunded) Actuarial Accrued Liability		<u>\$ 5,974,412</u>
Fiscal Year Beginning		July 1, 2006
Annual Required Contribution (ARC)		\$ 706,452
Amortization Factor Used - Underfunded Liabilities (30 years)		0.053632

C. Contributions Required and Contributions Made - The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

<u>Valuation Date</u> <u>December 31</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2000	\$ 495,557	100%
2001	527,797	100%
2002	557,126	100%
2003	558,664	100%
2004	555,140	100%

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - PENSION PLAN (continued)

Notes: Adoption of Benefit E and E-2 is reflected in the 2000 valuation. Total payments made by the City of Escanaba to MERS for fiscal year ended June 30, 2005 were \$650,157.

D. Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2000	\$14,775,142	\$17,398,220	\$ 2,623,078	85	\$ 4,086,633	64%
2001	15,615,958	18,783,991	3,168,033	83	4,315,870	73%
2002	15,834,089	19,829,046	3,994,957	80	4,306,914	93%
2003	16,789,939	21,330,198	4,540,259	79	4,405,553	103%
2004	17,612,343	23,586,755	5,974,412	75	4,417,685	135%

Notes: Actuarial assumptions were revised for the 2000 actuarial valuations.

NOTE 9 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

	Balance 06/30/04	Additions	Retire- ments	Balance 06/30/05	Amounts Due Within One Year
Governmental Activities:					
Refunding of 1993 and 1994 Escanaba Building Authority bonds, variable interest rate from 2.0 to 4.55%, due in semi-annual installments of \$150,000 to \$270,000 through March 2024.	\$3,880,000	\$ -	\$ 170,000	\$3,710,000	\$150,000
DDA bonds, 6.0%, due in annual installments of \$12,000 commencing June 1, 1997 through December 2006.	36,000	\$ -	12,000	24,000	12,000
DDA bonds, 6.13%, due in annual installments of \$40,000 commencing December 1, 2001 through December 2014.	440,000	-	40,000	400,000	40,000
Loan payable to the Michigan Strategic fund (CDBG program) for the Industrial Park Project. Principal payments of \$5,938 shall commence September 1, 2004 and every quarter thereafter until the debt is retired by May 31, 2014.	237,503	-	23,750	213,753	23,750
FICA on accrued compensated absences	45,754	-	4,763	40,991	18,592
Long-term portion of accrued compensated absences	598,088	-	62,262	535,826	243,036
Total governmental long-term debt	\$5,237,345	\$ -	\$ 312,775	\$4,924,570	\$487,378

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - LONG-TERM DEBT (continued)

	<u>Balance</u> <u>06/30/04</u>	<u>Additions</u>	<u>Retire-</u> <u>ments</u>	<u>Balance</u> <u>06/30/05</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
Business-type Activities:					
1993 Waste Water Utility revenue bonds, 2.0%, due in semi-annual installments of \$60,000 to \$85,000 through October 1, 2013.	\$ 760,000	\$ -	\$ 70,000	\$ 690,000	\$ 70,000
1998 Waste Water Utility revenue bonds, 2.25%, due in semi-annual installments of \$40,000 to \$65,000 through October 1, 2018	785,000	-	45,000	740,000	45,000
2002 Water Utility revenue bonds, 2.5%, due in semi-annual installments of \$110,000 to \$170,000 through October 1, 2023.	<u>2,750,000</u>	<u>-</u>	<u>110,000</u>	<u>2,640,000</u>	<u>110,000</u>
Total business-type long-term debt	<u>\$4,295,000</u>	<u>\$ -</u>	<u>\$ 225,000</u>	<u>\$4,070,000</u>	<u>\$225,000</u>

Debt service requirements on long-term debt, excluding compensated absences and fringes, at June 30, 2005 are as follows:

Governmental Activities:

<u>Year Ending</u> <u>June 30</u>	<u>Notes</u> <u>Payable</u>	<u>Bonds</u> <u>Payable</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,750	\$ 202,000	\$ 168,342	\$ 394,092
2007	23,751	202,000	161,795	387,546
2008	23,750	190,000	155,233	368,983
2009	23,750	200,000	148,656	372,406
2010	23,751	200,000	141,204	364,955
2011-2015	95,001	1,110,000	577,131	1,782,132
2016-2020	-	1,100,000	350,525	1,450,525
2021-2025	-	930,000	98,040	1,028,040
TOTAL	<u>\$ 213,753</u>	<u>\$ 4,134,000</u>	<u>\$ 1,800,926</u>	<u>\$ 6,148,679</u>

Business-type Activities:

<u>Year Ending</u> <u>June 30</u>	<u>Bonds</u> <u>Payable</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 225,000	\$ 93,869	\$ 318,869
2007	230,000	88,644	318,644
2008	240,000	83,251	323,251
2009	245,000	77,687	322,687
2010	245,000	72,063	317,063
2011-2015	1,245,000	272,020	1,517,020
2016-2020	975,000	140,995	1,115,995
2021-2025	<u>665,000</u>	<u>33,688</u>	<u>698,688</u>
TOTAL	<u>\$ 4,070,000</u>	<u>\$ 862,217</u>	<u>\$ 4,932,217</u>

NOTE 10 - ELECTRIC UTILITY FUND AGREEMENTS

The Upper Peninsula Power Company had contracted with the City of Escanaba to operate and maintain the City's generating plant for a period of 30 years. This contract expired on May 31, 1988. It was anticipated at the time of the original agreement that the plant would be capable of producing

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 10 - ELECTRIC UTILITY FUND AGREEMENTS (continued)

electric energy in excess of the quantities required by the City. Accordingly, over the 30-year period, the Company had the right to any excess power which was generated by the plant. In return, the Company agreed to make lease payments to the city in equal monthly installments over this period. The lease payments were calculated to pay for the bonds issued for the plant construction plus the interest thereon.

On January 1, 1979 the two parties amended their original agreement for the operation and maintenance of the City's generating plant. Under this new agreement, the parties shared equally the cost of operating and maintaining the plant in relation to the net energy generated and delivered to each of the parties.

On December 12, 1986 a new agreement was reached by the two parties for the operation of the City's generating plant. This new agreement went into effect on June 1, 1988 and will remain in force until terminated by mutual agreement or by either party subject to 36 months written notice. The new agreement provides that the Company will continue to operate and maintain the plant and the City will reimburse the Company for all operating, maintenance and administrative expenses incurred plus an annual management fee initially equal to \$25,000, adjusted annually according to the Producer Price Index.

NOTE 11 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables occurred during the year for operational purposes. Interfund receivables and payables at June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 68,395	Grants Fund	\$ 59,993
		Sanitary Landfill Fund	8,402
		Subtotal	68,395
Health Insurance Fund	33	Grants Fund	33
TOTAL	\$ 68,428	TOTAL	\$ 68,428

NOTE 12 - ADVANCES TO OTHER FUNDS

Electric Utility Fund - The advance to Marina Fund consists of a loan for \$155,524 made during the year ended June 30, 1990. The advance was used to finance certain capital improvements in the Marina Fund. The loan is to be paid back over a 17-year period with interest at 4 percent. The balance as of June 30, 2005 is \$24,112.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 12 - ADVANCES TO OTHER FUNDS (continued)

Land Development Fund - The advances to other funds consists of a loan to the Marina Project Capital Project Fund for \$350,000 made during the fiscal year ended June 30, 2001. The advance was used to finance certain capital improvements to the City's Marina. The loan is to be paid back over a 25 year period with interest at 5 percent. The balance as of June 30, 2005 is \$341,000.

NOTE 13 - NET ASSET AND FUND BALANCE RESERVES AND RESTRICTIONS

Fund balance reserves as reported on the Governmental Funds balance sheet are as follows:

A. Reserves for Inventory - The General Fund has \$388,917, reserved for inventory as they do not represent expendable available financial resources.

B. Reserved for Prepaid Expenditures - The General Fund has \$1,603 reserved for prepaid expenditures as they do not represent expendable available financial resources.

C. Reserve for Gas Retirement Principal and Reserve for Capital Improvements - By a voter referendum on November 2, 1965, the City is prohibited from expending any of the original principal, \$989,349, resulting from the sale of the City's gas utility in June, 1965. In addition, the interest earned from the investment of the principal can be spent only for capital improvements. At June 30, 2005 the amount available for expenditure is \$184,939.

D. Reserve for Long-term Notes Receivable - The E.D.A. Revolving Loan, M.S.C. Revolving Loan Fund II, and Urban Development Action Grant Funds have \$610,283, \$400,035 and \$966,262, respectively, of the fund balance reserved for the non-current portion of loans receivable which do not represent expendable available financial resources.

E. Reserve for Revolving Loans - Under terms of grant agreements with the United States Department of Commerce and the Michigan Department of Commerce, proceeds of funds granted to the City and loaned to local businesses must be reserved and used exclusively for additional, future loans to local businesses. Of these funds, \$370,261 is accounted for in the M.S.C. Revolving Loan Fund II, and \$987,488 is accounted for in the E.D.A. Revolving Loan Fund.

F. Reserve for UPSET Expenses - The Drug Law Enforcement Fund has \$106,218 reserved for expenses authorized by UPSET. These funds can only be used for UPSET activities and cannot be used for City activities.

G. Reserve for Land Held for Resale - The Land Development Fund has \$8,200 reserved for land held for resale which does not represent expendable available financial resources.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 13 - NET ASSET AND FUND BALANCE RESERVES AND RESTRICTIONS (continued)

H. Reserve for Future DDA Projects - The Downtown Development Authority Fund has \$522,449 reserved for future projects as listed in the TIF Development Plan.

Net asset restrictions as reported on the Proprietary Fund statement of net assets are as follows:

A. Restriction for Debt Service - In accordance with revenue bond indentures in the Water Utility Fund and the Waste Water Utility Fund, \$114,819 and \$230,509, respectively, of retained earnings are reserved for this specific purpose.

Net asset restrictions as reported on the Statement of Fiduciary Net Assets are as follows.

A. Reserve for Bonifas Trust Fund - Under terms of a Circuit Court decree dated March 3, 1955, the City of Escanaba was authorized to act as trustee in the administration of a bequest under the Last Will and Testament of Catherine Bonifas. The Will requested the bequest be used or applied one-third for a state office building, one-third for a city and county building, and one-third for a recreation building.

The fund balance at June 30, 2005, from receipt of the original donation, is computed below:

Original donation	\$ 311,789	
Interest earned on original donation	114,239	
General Fund contribution - land	20,565	
Community Action Agency Grant	20,307	
Earnings retained	<u>327,323</u>	\$ 794,223
Deduct:		
Delta County Building Authority payment authorized by Circuit Court decree	50,000	
Contribution to State of Michigan	145,784	
Transfer to City General Fund authorized by Circuit Court decree	279,395	
Capital improvements made to William Bonifas Fine Arts Center authorized by Circuit Court decree	6,500	
Capital improvements made to Catherine Bonifas Civic Center authorized by Circuit Court decree	<u>198,785</u>	<u>680,464</u>
		<u>\$ 113,759</u>

B. Reserve for Children's Materials - The Bezold Trust Fund has \$269,067 for the purpose of children's materials in accordance with a donor's instructions.

C. Reserve for Employees Retirement System - The Public Safety Pension Fund has \$17,694,037 reserved for that retirement system.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 14 - JOINT VENTURE - DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County, including the City of Escanaba. It was established in order to provide for a new landfill, as the former county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. The three members of the Authority board from the villages and townships are selected by and from a body composed of one representative from each township or village; the three board members from the cities are selected by and from a body composed of two representatives from each city; and the member of the Delta County Board of Commissioners is chosen by said Board of Commissioners after review of recommendation by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

Operation and maintenance costs are paid out of tipping fees assessed against those who dump garbage at the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone and private garbage haulers serving the other local units. The landfill began operation in December, 1985. Audited financial information of the Delta Solid Waste Management Authority as of and for the year ended December 31, 2004 is as follows:

Total assets	<u>\$ 6,172,140</u>
Total current liabilities	\$ 223,502
Total long-term liabilities	6,100,292
Total equity (deficit)	<u>(151,654)</u>
 Total liabilities and equity	 <u>\$ 6,172,140</u>
Operating revenues	\$ 2,348,187
Operating expenses	<u>(1,281,730)</u>
Net operating income (loss)	1,066,457
Non-operating revenues (expense), net	<u>(204,322)</u>
 Increase in retained earnings	 <u>\$ 862,135</u>

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 15 - OPERATING TRANSFERS IN AND OUT

During the year various transfers occurred between funds for operating activity purposes. Transfers between all funds are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 762,453	\$ 304,305
Major Street Fund	54,721	100,000
Local Street Fund	173,445	-
Parking Maintenance Fund	10,321	-
Library Fund	235,800	265,625
Grants Fund	19,020	-
Capital Projects Fund	5,732	-
Gas Retirement Fund	-	73,445
Land Development Fund	-	76,990
Sanitary Landfill Fund	-	184,405
Proprietary Funds:		
Electric Fund	-	519,481
Water Fund	-	1,433
Waste Water Fund	-	1,433
Fiduciary Funds:		
Bezold Trust Fund	<u>265,625</u>	<u>-</u>
Total	<u>\$1,527,117</u>	<u>\$1,527,117</u>

NOTE 16 - CONTINGENT LIABILITIES

The City has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. As of the date of this report management was unaware of any disallowed claims.

NOTE 17 - RISK MANAGEMENT

The City maintains self insurance programs for dental benefits, worker's compensation, unemployment compensation and health insurance that are reported as Internal Service Funds. All fund types are charged premiums at rates determined using established insurance rates and other factors which, in management's opinion, warrant consideration. For the fiscal year ended June 30, 1986, the assets of the Worker's Compensation Fund and earnings thereon, were considered sufficient to cover expected future claims and, thus, all charges to individual funds were discontinued. The City has in the past purchased an excess worker's compensation policy which covers excess losses greater than \$250,000 up to a limit of \$2,000,000 per

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 17 - RISK MANAGEMENT (continued)

occurrence, but as of July 1, 1987, permission was received from the Michigan Department of Labor to drop this excess coverage for workers compensation. Accordingly, the City no longer carries any excess insurance. Unpaid claims liability is calculated using mortality and present value tables applied to the existing or potential benefits stream.

A summary of the claims activity is as follows:

	<u>Balance 6/30/04</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance 6/30/05</u>
Workers' Compensation	\$ 325,000	\$ 122,178	\$ 122,178	\$ 325,000
Dental	26,970	109,732	112,451	24,251
Unemployment Compensation	3,066	11,684	9,339	5,411
Health Insurance	<u>55,402</u>	<u>192,126</u>	<u>192,836</u>	<u>54,692</u>
	<u>\$ 410,438</u>	<u>\$ 435,720</u>	<u>\$ 436,804</u>	<u>\$ 409,354</u>

The City of Escanaba participates as a member in the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members. An individual member's maximum retention on general liability and auto liability is \$100,000. The retention limits for property coverage are subject to a \$1,000 deductible with 10 percent of the first \$100,000 to be paid by the member. Some members have individual retention levels different than the ones previously stated.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund.

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The reinsurance agreements discussed above include provisions for minimum annual premiums. As of June 30, 2005, the Authority had met the minimum requirements.

CITY OF ESCANABA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 17 - RISK MANAGEMENT (continued)

At June 30, 2005, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE 18 - UNREALIZED GAINS & LOSSES ON INVESTMENTS

Under the requirements of Governmental Accounting Standards Board Statement 31, the City records it's investments at market value. As a result of market fluctuations an unrealized loss of \$303,232 has been recorded during the current fiscal year.

NOTE 19 - RECLASSIFICATION

Certain reclassifications have been made in the 2004 comparative totals to conform to the classifications used in 2005. Any reclassifications made were not material to the financial statements.

NOTE 20 - ELECTRIC PEAKING UNIT

The City had entered into a contract for the purchase of a refurbished electric peaking unit generator. Because some of the contractual timelines were not met, the City had withheld payment on the final installments of the purchase agreement. The contractor had sued the City for the balance of the contract, which amounted to approximately \$1.4 million plus interest, unspecified damages and attorney's fees. The City had counter sued due to the unmet contractual time lines. During the June 30, 2005 fiscal year this matter was settled for \$850,000.

NOTE 21 - SINGLE AUDIT

OMB Circular A-133 requires that any entity that expends more than \$500,000 in federal awards is required to have a single audit as outlined in the OMB Circular. For the year ended June 30, 2005, the City did not expend more than \$500,000 in federal awards. Consequently, no single audit was performed or required.

REQUIRED SUPPLEMENTAL INFORMATION